

EXPORT-IMPORT BANK PROGRAMS AND POLICIES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE
AND MONETARY POLICY

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN
AFFAIRS

UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

THE PERFORMANCE OF THE EXPORT-IMPORT BANK OF THE UNITED
STATES DURING THE PAST FISCAL YEAR, THE POLICIES OF THE
BANK, THE ROLE OF THE BANK IN U.S. EXPORT STRATEGY, AND
WHAT CHANGES MAY BE NECESSARY IN THE BANK'S CHARTER
WHEN ITS RENEWAL IS CONSIDERED IN 1983

SEPTEMBER 14 AND 16, 1982

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EXPORT-IMPORT BANK PROGRAMS AND POLICIES

TUESDAY, SEPTEMBER 14, 1982

U.S. SENATE, COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS, SUBCOMMITTEE ON INTERNATIONAL FI-
NANCE AND MONETARY POLICY,

Washington, D.C.

The committee met at 10:35 a.m., in room 5302, Dirksen Senate Office Building, Senator John Heinz (chairman of the subcommittee) presiding.

Present: Senators Heinz, Garn, Chafee, and Proxmire.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. Today we are beginning 2 days of indepth hearings on the performance of the Export-Import Bank over the last fiscal year. Private witnesses will testify today and we'll hear from the Bank and the administration on Thursday. We are going to examine why the Bank has failed to use nearly \$1 billion of direct loan authority granted by Congress, the consequences of this, the other policies of the Bank, the role of the Bank in our export strategy, and what changes may be necessary in the Bank's charter when its renewal is considered next year.

The Export-Import Bank Act of 1945 spells out in detail the Bank's purposes and responsibilities. Today's hearing will examine the degree to which the Bank has fulfilled those purposes and responsibilities, receiving testimony from those most affected by the Bank's activities.

The Export-Import Bank began fiscal year 1982 with uncompetitive terms in its direct loan programs. The percentage of participation in loans which the Bank offered to cover was woefully inadequate, and the effective interest rates were hundreds of basis points above the rates offered by the official credit agencies of our major trade competitors.

As if this was not enough to deter American exporters from seeking Exim support, the Bank demonstrated a clear reluctance to provide assistance to those companies that did apply for it. By May, it was clear that the Bank was headed for a shortfall in meeting its direct loan authorization. Direct lending was down by 50 percent and loan guarantees were behind even further, down 88 percent from the previous year. Attempts to explain this by the downturn in world trade were as inadequate as the Bank's performance: It is true that the world economy was in recession, but that factor alone cannot explain the dramatic dropoff in Eximbank activity.

In fact, it could be argued that the downturn in the world economy actually heightened the need for Eximbank's programs, as our trade competitors accelerated their efforts, to capture a greater slice of the dwindling world trade pie.

Eximbank, however, continued its restrictive policies, insuring that foreign trade shares were preserved for our trading competitors at America's expense.

Nevertheless, few predicted that the Bank would be as far behind in its direct credit support for U.S. exporters as it currently is. The \$1 billion shortfall in Eximbank direct lending at a time of heightened need for export credits suggests a deliberate policy of idleness in a time of emergency—the modern equivalent of fiddling while Rome burns. The testimony today will suggest in greater detail the economic damage caused by this policy.

Just what have been the real costs of this billion-dollar policy? How many billions of dollars of export business were lost that could have been supported by the artfully leveraged use of a billion dollars in export financing? What would be the dollar value of the follow-on projects that would have resulted from such initial sales? How many markets are now permanently lost?

At 31,000 jobs per billion dollars of U.S. exports, how many jobs would have been saved through the billions of dollars in exports that might have been generated? The Eximbank may very well be the most efficient and powerful instrument of job creation of the Federal Government. What are the costs of not using a billion dollars of the direct loan authority mandated by Congress for this program? How many millions or billions of dollars in Federal, State, and local tax revenues have been lost?

What are the costs of this billion dollar policy in terms of lost profits, in terms of reduced funds available for research and development? What does such a policy mean for the ability to maintain our technological lead over our trade competitors?

What are the permanent costs to the economy of American production being moved overseas to take advantage of export financing not available here? What is the defense cost of having our strategic industries relocate beyond our shores?

Just how real these questions are is made abundantly clear when we read in the news that corporations such as Bechtel are placing their export orders through their London offices because international competition makes it impossible for them to operate successfully in world markets from here in the United States.

The Export-Import Bank is an independent agency of the U.S. Government. As such, it is responsible to the Congress which granted it its charter, and which authorizes the level of its various export support programs. When the Congress makes a determination that a certain level of direct loan authority will be needed by American exporters in a given fiscal year, that is a mandate to the Export-Import Bank to make such levels realistically available.

These authorizations are the law of the land. They are signed by the President, and, as such, are direct expressions of our national will. I do not see any latitude for an official of the Eximbank or down at the Office of Management and Budget subsequently to formulate policies that result in frustrating the clear intent of the Congress.

If the Bank does not exercise sufficient independence to be responsive to the Congress, then legislation granting the Bank greater independence may indeed be necessary. To pose this and other questions, and suggest some tangible solutions, several of my colleagues and I introduced S. 2600, the Export-Import Bank Restructuring Act of 1982. These hearings may show just how needed those measures are.

The United States is currently engaged in a fierce global economic competition with our economic and strategic national welfare at stake. The Export-Import Bank is in the position to play a powerful role in assuring our success in that competition, but the Bank will do us no good unless it is aggressively used. Hopefully, this hearing and the one on Thursday will help us better understand the value of the Eximbank to our economy and the consequences of an underfunded or noncompetitive Bank.

At this point, I'd like to yield to the chairman of our full committee, Senator Garn.

Senator GARN. Thank you very much, Senator Heinz, and I appreciate you holding these hearings. I think it's most appropriate as we approach the end of fiscal year 1982 to examine what Eximbank has done. As the chairman knows, I have been involved in Eximbank, not only on the Banking Committee, but for 2 years I served with Dan Inouye on the Foreign Operations Subcommittee, where we provided their direct funding.

I have been, frankly, very disappointed at the level of funding. I was here during the Carter administration. We fought that battle for 2 or 3 years and had hoped when the Reagan administration came in, that they would be more foresighted as far as the operation of the Eximbank was concerned. But all they have done is continue the same short-sighted policies, in my opinion, as far as the importance of the Eximbank, as the Carter administration did.

As we look back over the past 12 months, it would be difficult for us to dismiss the positive contribution that the Eximbank has made in the achievement of our economic and, I might add, our strategic policies.

[The complete statement of Senator Garn follows as though read:]

OPENING STATEMENT OF SENATOR GARN

Senator GARN. Mr. Chairman, I commend you for holding this set of hearings on the Export-Import Bank. They come at an appropriate time, as we approach the end of the 1982 fiscal year.

As we look back over the past 12 months it would be difficult for us to dismiss the positive contribution that the Eximbank has made to the achievement of our economic and, I might add, strategic policies. Billions of dollars of American exports, and therefore tens of thousands of American jobs, have been supported by Eximbank activities. These sales, that otherwise would have not been realized, have added to the viability and growth of some of our most crucial industries, industries that are essential to the generation of advanced technology and high productivity which are basic to our economic and military strength.

The thousands of companies that are affected by Eximbank programs are in the very industries that are providing for the future of this Nation, being in the forefront of innovation and job creation and leading the continuing economic transformations that are the challenge for every developed nation of the world. If the United States is to maintain its economic preeminence, it will be through the efforts of the organizations served by Eximbank programs.

Because of the existence of the Eximbank and the strong support that the Bank has received from the Congress, significant progress has been made toward limiting the international competition in official export credits, through which other countries have sought to reduce unemployment and advance their own critical industries at America's expense. Eximbank's resources have been used to eliminate the advantage that our trade competitors have sought to obtain through cut-rate export subsidies. This has brought about progress in the negotiations within the OECD. Minimum interest rates have been effectively raised to near market levels, and several countries have been graduated into less concessionary rate categories.

In this regard, the Export-Import Bank has played a crucial role in rationalizing commercial relations with the Soviet Union. Because of our continued pressures, backed by the leverage presented by the exercise of Eximbank programs, official export credit rates to the Soviet Union have virtually been raised to market levels. That is no small accomplishment in light of the all too frequent Western practice of granting the Soviets the equivalent of foreign aid in export credit terms. We still need more rationality in our trade relations with the East, but what has been achieved so far we owe in large measure to the existence of our Export-Import Bank.

Mr. Chairman, in looking at the effects of Eximbank programs for the past fiscal year I can see no negatives. They are a positive force and deserve our support. In fact, the only criticism that I would raise is that the Bank has not done more and performed an even better service for the achievement of our national policies. Certainly the need and the opportunity were there.

When we come to the end of a fiscal year and find the Bank with a billion dollars of unused lending authority while at the same time billions of dollars in U.S. sales are being forfeited. American production is being relocated overseas, our trade deficit is worsening, and thousands of jobs are being lost, perhaps permanently, something clearly is wrong.

Perhaps part of the problem is attributable to the uncompetitive loan terms offered by the Bank in the earlier part of the fiscal year. I questioned the wisdom of such policies then; for they would clearly discourage an exporter from going through the trouble of applying for Eximbank support which he knew would be difficult to get and would be uncompetitive in any event. The billion dollars of unused Eximbank authority clearly shows that my worries were not unfounded.

The rationale for the loan policy seems even more unfathomable to me, based as it was on assumptions that the President's economic policies would not work, that interest rates would continue at high levels, causing short-term earning losses for the Eximbank.

Instead, the President's policies are working. Interest rates are coming down, dramatically in the last few weeks. Eximbank's losses have been much lower than predicted and should soon be replaced by sizeable earnings. Even if there were short-term losses, it seems to me that the Bank's reserves of \$3 billion were intended to cover such eventualities. Yet, the Bank chose the mistaken policy of increasing the cost of its direct lending program to the detriment of the exports that it was chartered to defend. The result has been a year-end balance of \$1 billion of very much needed but unused direct loan authority.

I hope that these hearings will examine the reasons for these shortcomings in the Bank's performance over the past year. To draw attention to some of these issues I was pleased to be a cosponsor of S. 2600, the Export-Import Bank Restructuring Act of 1982. I hope that S. 2600 will prove a stimulus to an in-depth evaluation of just what it is that we should be doing with the Eximbank. Perhaps some significant, structural changes are needed.

Senator GARN. I want to emphasize as a sidenote the thousands of companies that are involved. I'll never forget the debates with the House on the appropriations bills where continually, Boeing was brought up as though this is just welfare for Boeing.

I remember making the arguments over and over again with Chairman Long that Boeing doesn't even manufacture airplanes; Boeing assembles airplanes, putting parts together by some 25,000 subcontractors in almost every State in this country.

So this business that Eximbank subsidizes big business is a ridiculous charge. It subsidizes sales that return to this country for literally thousands of small businesses and suppliers all over this country, in a number of key industries.

I want to make sure that that was clear with Senator Jackson here, because I'm sure that he gets accused of just supporting Boeing. But Boeing represents about 25,000 small businessmen around this country and suppliers who make the parts that Boeing assembles into some fine aircraft.

I hope that these hearings will examine the reasons for the shortcomings in the Bank's performance over the past year. To draw attention to some of these issues, Senator Heinz mentioned I have been pleased to cosponsor S. 2600, the Export-Import Bank Restructuring Act of 1982. I hope that S. 2600 will provide a stimulus to an indepth evaluation of just what it is that we should be doing with the Bank. Perhaps some significant structural changes will be necessary.

Again, Mr. Chairman, I thank you for holding these hearings. I think they're very timely and somehow, we've got to wake up some people to the importance of this Bank and the fact that it doesn't cost very much if they would look at the jobs that are lost in that billion dollars that was not utilized: I would imagine that the revenues, the return from that, would be far more than has been saved by the cutbacks in Eximbank funding.

Senator HEINZ. Senator Garn, I thank you for a truly excellent statement.

Senator Chafee.

STATEMENT OF SENATOR CHAFEE

Senator CHAFEE. Thank you, Mr. Chairman. Let me just say that it seems to me that the Eximbank fits in overall with the efforts that we've been making in connection with increasing exports from the country. These efforts have included the changes in the taxation of Americans abroad so that American companies could be encouraged to hire more Americans. They are incorporated in our efforts to change the Foreign Corrupt Practices Act, which came out of this committee, passed the Senate by a voice vote and, unfortunately, has been bogged down in the House. I hope that we can get the Foreign Corrupt Practices Act, the reforms in that that are needed, to make the United States truly competitive, I hope that we can get them out of the House.

As far as the Eximbank goes, I support the Bank. I was sorry that its funding was reduced last year. I have no trouble at all with the fact that some of the moneys go, even a majority of the moneys go, to large companies. Those companies, as the chairman pointed out, spread jobs all through the Nation.

I, for one, am extremely proud of Boeing and I want Boeing to get these contracts abroad so that we can continue to compete and be superior to in sales and, obviously, in quality to Airbus, which is providing a tremendous threat to our aviation industry in this Nation.

So I'm glad you're holding these hearings, Mr. Chairman. I regret that I have to leave at 11, but I look forward to hearing Senator Jackson, who has been so vigorous in his support of these efforts over the years, and then reading the testimony of those further witnesses.

Thank you.

Senator HEINZ. Senator Chafee, thank you very much. Before I call on Senator Jackson, Senator Dixon is unfortunately at a hearing of the Agriculture Committee on a bill he authored and, without objection, his statement will be placed in the record at this point.

[The complete statement follows as though read:]

STATEMENT OF SENATOR DIXON

Senator DIXON. I am pleased that the International Finance and Monetary Policy Subcommittee is conducting oversight hearings on the Export-Import Bank. We have a distinguished panel of witnesses here this morning, and I look forward to receiving their insights.

I am particularly pleased to see Mr. Earl W. Doubet, president of the Caterpillar Americas Co., a subsidiary of the Caterpillar Tractor Co., Illinois' largest manufacturer. I note with interest his statement that over 56 percent of Caterpillar's total sales in 1981 were outside the United States.

That figure points out the growing importance of exports to the U.S. economy. Increasingly, American business competes in a world market. The United States can no longer afford to ignore world markets, if it ever could.

As everyone here knows, exports mean jobs—American jobs. Every \$1 billion in exports creates at least 30,000 jobs. I think it

makes far more sense to encourage the growth of American exports than to stand by and see American jobs leave for foreign plants.

Eximbank plays an important part in seeing that U.S. exports are competitive in the world market. In an ideal world, a credit subsidizing agency like Eximbank would not be necessary.

However, this is not an ideal world. I agree with Mr. Doubet. I do not believe that the United States should follow a policy of unilateral export credit disarmament.

I support efforts to reduce export credit subsidies worldwide through negotiations with all our major industrial competitors. However, in the absence of that agreement, I believe we must make every effort to strengthen the Eximbank. It is for that reason I have joined with Senator Heinz and a number of other members of the Senate Banking Committee in offering legislation to expand the capital resources of the Bank.

I am concerned to see that the Bank will fail to use nearly \$1 billion of its direct loan authorization for fiscal year 1982 and approximately \$750 million of its authorization for financial guarantees. Given the situation we are facing in the world today, the Bank simply must do better. The future of the American economy is tied to increased exports.

The need for Eximbank credits is clear. I look forward to learning from the witnesses at today's and Thursday's hearings what we can do to increase the effectiveness of the Bank. I also look forward to the witness' explanation as to why the Bank is failing to place all of its authorized credit.

Senator HEINZ. Senator Jackson, we're delighted to have you here. Would you please proceed?

STATEMENT OF HENRY M. JACKSON, U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator JACKSON. Thank you, Mr. Chairman. I want to congratulate and commend you for your leadership in initiating these hearings and the legislation that has been referred to previously. I want to also commend the chairman of the full committee, Senator Garn, who has been long concerned with the problem. Senator Chafee and I have had a mutual interest in trying to promote exports of especially our high technology industries over the years. And I think that these hearings will serve a very useful purpose.

I would like to speak briefly this morning, Mr. Chairman, on S. Res. 458, a bipartisan resolution. As you recall, this resolution, with 25 sponsors, expresses the sense of the Senate that the Export-Import Bank of the United States should be strengthened.

[The complete statement follows as though read:]

Senator JACKSON. Mr. Chairman and members of the committee, I thank you for this opportunity to speak in support of S. Res. 458—a bipartisan resolution.

This resolution, with 25 Senate sponsors, expresses the sense of the Senate that the Export-Import Bank of the United States should be strengthened.

The Export-Import Bank was founded by Presidential order in 1934 and incorporated by Congress in 1945 with a capitalization of \$1 billion.

And, as my colleagues know, it operates just like any other bank. It uses no tax money. And it is not a drain on the Federal Treasury.

In fact, Mr. Chairman, over the past 47 years the Bank has: Generated more than \$100 billion in export sales and 70 percent of those sales would not have been made without Eximbank financing; returned more than \$1 billion to the U.S. Treasury and, of over \$55 billion in direct loans, it has written off only \$8 million—a miniscule fraction—as worthless; and established a reserve fund of more than \$2 billion and, last year, earned \$12 million while in each of the previous 10 years it turned a profit of \$100 million or more.

But, this year, the Bank is expected to lose \$120 million, while made-in-America goods are losing out in the world market, and our position as a leader in world trade is threatened.

Mr. Chairman, we produce agricultural products more efficiently. We produce computers and aircraft more efficiently. Yet made-in-America goods are still losing out. And our economy is operating at less than three-fourths of its capacity.

What is needed, I believe, is a concentrated effort to export. Domestic markets alone will not suffice, exports are essential to our economy.

Exports are essential because: Exports account for 8 percent of our gross national product and that's almost twice what it was in 1970; exports of American products support 1 of every 7 jobs in this country; every \$1 billion in exports creates 30,000 jobs and additional tax revenue; and approximately 20 percent of the total goods produced in the United States go to foreign buyers.

Exports are also crucial to my own State, as evidenced by the fact that: 1 of every 5 jobs in Washington State depend on foreign trade; over one-half of the commercial jet transports today are manufactured in Seattle; one-fifth of the fresh Washington State apple crop were sold into world markets; and 20 percent of Washington State production of lumber is exported and 16,000 jobs were related to lumber exports in 1981.

So, Mr. Chairman, it is in the best interest of the Nation to fully participate in world markets. The markets are large. The producers know how to make the best products, and the need is now.

Industries will suffer irrevocable losses of opportunity if we wait. And the Export-Import Bank has a role to play in making opportunity a reality.

Permit me briefly to summarize what S. Res. 458 says and why.

First, the resolution calls upon the Senate Banking Committee to investigate ways to strengthen the Export-Import Bank.

The economic realities of the world marketplace must be recognized. These realities involve an interdependent world. The free enterprise system is facing worldwide market competition.

The competition have their roots in a set of national priorities established by their government. The United States has no such commitment. And our lack of resolve shows up in national statistics—statistics on trade deficits, unemployment, business failures, idle capacity and loss of product superiority.

I might mention, Mr. Chairman, that your legislation—Senate bill 2600—provides an excellent working paper from which we can explore the ills of the Bank and establish our Nation's commitment to exports. And, as a cosponsor, I am hopeful that the Senate Banking Committee will move quickly on this measure.

Second, the resolution calls upon the Senate Appropriations Committee to provide sufficient authority for the Export-Import Bank.

Sharp reductions in the lending authority of the Bank have been recommended. The Bank is currently being funded at a level of \$4.4 billion for direct loans and \$9.2 billion for loan guarantees. The administration has requested \$3.8 billion for direct loans and \$8 million for loan guarantees for fiscal year 1983. These figures reflect a 13-percent reduction in funding, and 30 percent less than what it was 2 years ago.

Why reduce a program that produces jobs when the unemployment rate is 9.8 percent?

Why reduce a program that provides money for the Treasury when the projected deficit for fiscal year 1983 is well over \$100 billion?

Third, the resolution asks the Export-Import Bank to provide U.S. exporters with competitive financial support.

The Export-Import Bank is not fulfilling the mandate laid down by Congress in the Export-Import Bank Act of 1945. It was mandated "to support U.S. exports at rates and on terms and conditions which are competitive with exports of other countries * * *." I want to emphasize competitive financing.

Competitive financing means reliable financing. It means financing available to foreign buyers based on a consistent set of guidelines. These guidelines must support the sale of products in world markets. This is necessary for export financing to be competitive. And the U.S. industry does not have it.

To summarize, Mr. Chairman, the Export-Import Bank was created by the Congress. It is supported by the Congress and it is directed by the Congress to provide competitive financing terms to buyers of U.S. exports.

Congress must, therefore, send a message to our competitor nations and the world marketplace of buyers. Each should know of the resolve of this Congress to support the competitive force of the Export-Import Bank as chartered. Senate Resolution 458 serves that purpose.

I thank you, Mr. Chairman, for the opportunity to present my comments as it pertains to the resolution that has been introduced, Senate Resolution 458.

Senator HEINZ. Senator Jackson, thank you for a very fine statement. We very much appreciate your fine work, the work we've done together on behalf of the Bank, and to facilitate exports generally, is very much appreciated by all the members of this committee.

I note that Senator Proxmire is here. Bill, do you have an opening statement?

Senator PROXMIRE. No.

Senator HEINZ. Are there any questions for Senator Jackson?

[No response.]

Senator HEINZ. If not, Scoop, thank you very much for being here.

Senator JACKSON. I think we're all in agreement.

Senator HEINZ. I think so.

Senator JACKSON. Thank you, Mr. Chairman.

Senator HEINZ. We have a panel of witnesses: Mr. Malcolm Stamper, Mr. James Lovett, Mr. William Durka, and Mr. Earl Doubet.

Gentlemen, would you please come forward.

Mr. Stamper, I think that you would be a most appropriate followup witness, with our having heard from Senator Jackson. Would you be our leadoff on this panel?

STATEMENT OF MALCOLM STAMPER, PRESIDENT, BOEING CO., SEATTLE, WASH.

Mr. STAMPER. Thank you, Mr. Chairman, members of the subcommittee. We are most appreciative of the opportunity to speak on the Eximbank as it relates to Boeing and to present our views on the new legislation that is being proposed by Senator Heinz and by Senator Jackson and the other cosponsors present.

You are to be congratulated on your courage, gentlemen, for taking on, during an election campaign, an issue that has been so widely mislabeled as a big business subsidy. In truth, the issue, of course, as we know, is really simply a matter of protecting American workers' jobs. With unemployment at 9.8 percent in the Nation, you couldn't be working on a more important issue.

Pure and simple, exports create jobs. In commercial jet airplanes, \$1 billion in export sales creates 22,100 jobs with the manufacturer and its direct suppliers, and the impact of the paychecks of those workers on the economy generates another 33,150 jobs in goods and services. That's why it strikes us as ironic that we would be reducing the support to American aerospace workers by cutting back on the Eximbank at this time.

EFFECT OF CUTBACK ON EXIMBANK

We laid off 10,000 workers at Boeing last year and 5,000 so far this year, and 5,000 more before the end of the year if we don't improve sales. You have to multiply the Boeing unemployment number by 3 to cover our suppliers throughout the country who are affected by our cutbacks.

As an example of the supplier network involved, a 747 airplane is assembled by Boeing in Senator Jackson's hometown of Everett, Wash., as he mentioned. But a 747 consists of 4½ million parts. Sixty-five percent of the airplane's weight and 50 percent of its value is manufactured by first-tier subcontractors and suppliers—1,500 of them in 47 States and, as Senator Garn pointed out, tens of thousands of second-tier suppliers provide parts and equipment to them.

This network of invisible exporters, as we call them, extends into every community across the economic fabric of the Nation. For instance, in Pennsylvania, of the almost 15,000 Boeing workers, direct suppliers to Boeing, and those affected in the community by Boeing employment, over 20 percent are dependent on exports. The

747 is really an all-American product, with the nose being built in Kansas, the body in California, the tail in Texas, the landing gear in Ohio, the wing highlift devices in New York, the engines in Connecticut, and so forth.

So when we talk of the effect of the Eximbank on Boeing, don't think of a single company, but instead the thousands of companies large and small involved across the Nation.

In the time allotted I'd like to cover two key issues: the funding level of the Eximbank; and second, the new operating policies of the Bank that have been established because of that funding level.

In reducing the funding level of the Eximbank, I'll assume that everyone agrees that: first, no taxpayer dollars are involved; no trade-offs between social programs or defense projects is required; and that no international free trade results.

But one effect it does have—reduced funding has caused a dramatic change in the policy of the Eximbank in its approach to supporting exports.

Boeing has dealt with the Bank for as long as we've been in the commercial airplane business. We've been partners for a long time.

Last year, Boeing's foreign customers used 43 percent of the Bank's loans—around \$2.6 billion. The year before, \$1.04 billion, about 25 percent of the Bank's capacity. We were the leading exporter in the United States for those years and proud of our contribution to the American economy.

ONE BILLION DOLLARS OF UNUSED FUNDS

The first half of this year, the Bank has only approved \$96 million for Boeing Aircraft, despite the fact that the Bank is probably going to end up with almost \$1 billion of unused funds.

I asked our sales force if we had as aggressive and flexible an export financing policy as our foreign competitors, how many more sales could you have made in 1982, and this is their list:

Singapore, six 757's or 767's; Malta, two 757's; Nigeria, more 737's as well as 747's and 767's; Brazil, 737's to Varig and 767's or 737's to Vasp; Colombia, 767's to Avianca; Mozambique, four 737's; Peru, two 737's; Bangladesh, one to two 747's; Sudan, one to two 737's; Yugoslavia, two 757's to JAT; Ethiopia, two 767's; Niger, one 737; Upper Volta, one 737; Zambia, one 737 or 747; and Bolivia, one 727.

The reason I read those out is that this is over 1 billion dollars' worth of sales and 55,000 aerospace jobs throughout the country. As far as exporter ranking, we're not going to even be in the running this year. And why are we doing this to one of our more successful industries?

Boeing is introducing two new fuel efficient aircraft this year—the 757 and the 767. We're rolling out an improved version of the 747 on September 21 and we are well along on the design of the improved 737-300 for delivery in 1984. This should be a better year. Business is bad, but it's not that bad.

How did we get off the track? Certainly, part of the problem started when OMB Director Stockman explained why he felt it politically necessary to cut Eximbank funding in 1981. Stockman stated that he felt it was politically necessary to cut the Eximbank

because it gave an indication that he was dealing with business and social programs evenhandedly. He said:

If we're ever caught not cutting this while we're biting deeply into the social programs, we're going to have big problems.

Incidentally, if Senator Heinz's bill had been in force then, that issue never could have arisen. Of special interest to me, Stockman also said: "I've got to take something out of Boeing's hide to make this look right."

Too bad he didn't know at the time that taking it out of Boeing's hide also meant the useless sacrifice of thousands of jobs in the thousands of suppliers, big and small, that we have throughout the Nation.

The effect of the cut on the Eximbank has been unfortunate. Instead of being an aggressive organization leading the charge to get American exports up to a level that can offset the debilitating deficits that we have been experiencing, it has rendered the Bank timid and cautious. I just got back from London yesterday where I've been for the last week demonstrating our new 767 and 757 at the Farnborough Air Show against the Airbus A310. Airline executives from all over the world came there to compare. Our airplanes are better than the competitor's, but that's not good enough any more. Our chief competitor today is Airbus Industries, a primarily government-owned European consortium. They've moved from a distant fourth place in the industry 4 years ago to a solid second place last year.

We like competition at Boeing. In fact, we thrive on it. We welcome them to the marketplace. In fact, they have a right to compete. We do need to work out ground rules for competing which are fair, of course. First, their development and production of the Airbus A-300 and A-310 is subsidized, as was the Concorde. Second, government ownership gives them government-to-government leverage and support in a host of ways. Over 75 percent of the sales of A310's are to government-owned airlines. Only 13 percent of Boeing's 767's are to government-owned airlines.

FOREIGN GOVERNMENTS SUPPORT AIRBUS FINANCING

And third, their governments aggressively support Airbus financing. This got so out of hand that the U.S. and the European consortia negotiated the Commonline Agreement, to be in effect from September 1981 to September 1982. That agreement allowed 12 percent interest for 10 years for 42½ percent of the funds required. We were hoping that this would give us parity in, at least, financing against Airbus. But the cutback of funding for the Eximbank drove the Bank's management to decide it was more important to save money than to compete for exports. For instance, they decided not to grant direct credits to developed countries. But Lim Chin Bing, the head of Singapore Airlines, said that Airbus was delighted to give him credit and he saved \$40 million in financing costs by buying the A-300 rather than a comparable number of Boeing 757's, which he actually preferred.

The Bank will give no direct credits for 747's, 727's, and 737-200's, because they say they have no competition from Airbus. This is ridiculous, of course. Obviously, they compete. A-300's even com-

pete with 747's. All the airline has to do is stop one time on the way. The Bank's inexperience and commitment not to loan money is costing us market share and American jobs.

If a customer prefers Boeing, they cannot get Exim funding unless we go out and get Airbus to make a competitive offer. The Eximbank adds a one-time 2 percent set-up fee which Airbus does not. The fee was designed to bring the Bank extra revenue, which makes our terms automatically noncompetitive. The Bank discourages customers by a lack of willingness to grant loans on subsequent buys once they are so-called captive customers. Airbus does not.

It's no wonder that airline executive after airline executive told me last week in London that Boeing builds and supports great airplanes, but it's a shame that our Government has decided not to compete in supporting our products against the Europeans. Here are two short excerpts from wires from chairmen of foreign airlines received this year on this point.

First in regard to Vasp, TransBrazil's domestic competitor, who decided recently to buy A-310's over Boeing 767's. Omar Fontana, the head of TransBrazil sent the following wire:

The reason for this spectacular gain by Airbus appears to be due solely to their extreme flexibility in the financing area, in flagrant contrast to the rigid and uncompromising posture of the Eximbank. As already stated, we simply cannot afford to pay higher interest rates than those obtained by our Vasp competitors.

The second one from Aoussou Koffi, who is president and director general of Air Afrique in Abidjan, Ivory Coast:

The Board . . . concluded that Air Afrique should seek some alternative solution to our requirement for additional aircraft. The Eximbank has advised us that they would provide only a guarantee, with no direct participation in our planned purchase of a 747. Our experience with Airbus Industries indicates that we could purchase one or more additional A-300's at Export Credit Agency rates.

Here's a case where just to go between Paris and Abidjan, they could stop once and the A-300 is quite competitive with the 747.

Actually, both these cases are still pending and the Eximbank has finally agreed to grant direct credits for both of them, but only after fully frustrating the customer and energizing the competition.

The management of the Eximbank clearly feels that it is best serving the country by saving on the granting of direct credits than by stimulating exports and creating jobs. The current damage to our industry is a lasting one. The jobs we lose now are for the next 15 to 20 years because the airlines are in the process of choosing whether they'll buy the American or the European new generation aircraft for the life of that product. These are difficult times and we believe the thrust of S. 2600 could help. It would send a clear signal that the United States does not intend to opt out of the competition for world markets. It would reaffirm this country's insistence on fair rules for that competition.

Boeing favors getting all governments out of the business of subsidizing sales of commercial aircraft, but we do not favor doing it unilaterally—thereby turning over our orders and our jobs to our competitors.

Paradoxically, a strengthened Eximbank is probably the only way to promote the goal of eliminating export credit subsidies for

commercial aircraft, thereby giving the American aerospace worker a fair shot at keeping his job.

Thank you.

Senator HEINZ. Mr. Stamper, thank you very much.

[Complete statement and additional information follow:]

PREPARED STATEMENT OF MALCOLM T. STAMPER, PRESIDENT OF THE BOEING CO.

Mr. Chairman and members of the subcommittee, I am Malcolm Stamper, President of The Boeing Company.

Thank you for the opportunity to express our concerns regarding American exports and American export policies specifically as they relate to the Export-Import Bank. I also want to express appreciation to you Mr. Chairman, and to your co-sponsors on S. 2600 for having the courage to step up to a problem of considerable significance in America. EXIM has been criticized by opponents as an agency which benefits only "big business". You and I know that big business is just the small neck of a very large bottle. The real beneficiaries of EXIM are the employees of thousands of small businesses throughout the United States. Boeing has over 4,000 suppliers who participate in the manufacture of our commercial airplanes. The real issue in this whole question is jobs . . . the employment America derives from the successful manufacture and sale of its high technology products. I want to commend the co-sponsors of S. 2600 because of their recognition of the close connection between EXIM and thousands of jobs across the country.

For the last three years, The Boeing Company has been the number one exporter in the United States. Traditionally, the American commercial airplane manufacturer has been one of the few American industries which has been compelled to compete successfully beyond the U.S. domestic market. We have competed in nearly every country of the free world and continue to do so today. We have done so on the basis of having a good product and a fair price. We are still committed to the same standards of excellence and competition which have been the traditional rules in a free and open marketplace.

Unfortunately, the marketplace is no longer free and open. Today, our most serious competitor, Airbus Industrie, is a 70 percent government-owned European consortium which has committed its considerable resources to displacing our leadership in the world market. And the rules Airbus is playing by are not the traditional rules of product/price competitions. Today one of the most significant factors in a airplane competition is the financing of that large capital good. We are afraid that as financing becomes more important in light of a general economic malaise we will lose more and more competitions; not because our competitor makes a better product or has a lower price or a better marketing plan . . . rather because they were able to take advantage of a weakness in American resolve to neutralize unfair international trade practices.

We will have some more specific recommendations toward the end of these statements. These recommendations will relate more generally to American trade policy because we feel that EXIM must be a part of a comprehensive U.S. policy of international trade. Before responding specifically to the areas as requested by the Subcommittee, I would like to state briefly, that what we would like to see this Congress do in the near term is to continue the Bank's lending authority for fiscal year 1983 at \$4.4 billion. EXIM may not use its entire authority for 1982. To some this might suggest that the level for 1983 should be lower. We feel that this reasoning does not take into account the reasons for low usage of fiscal year 1982 funding. These reasons include a soft market due to a slowed world economy, the postponement of two large projects which may have used EXIM funds, and EXIM policies which may have discouraged potential users of the Bank in fiscal year 1982. All of these factors are subject to a potentially rapid change which could create a surge demand on EXIM in fiscal year 1983 and beyond. In addition to being prepared for an increased demand when the world economy rebounds, it is important that we maintain a high enough level in EXIM funding to signal to our foreign competitors that we are committed to matching competitive financing and have reserved the resources for doing so.

Your letter inviting us to testify listed four areas of interest: (1) an assessment of the activities of the Export-Import Bank over the past year; (2) views on the Bank's place in our overall export strategy; (3) suggestions for revising the Bank's charter; and (4) comments on legislative proposals designed to change the Bank's structure.

EXIM ACTIVITIES THIS PAST YEAR

The present Administration was elected with a mandate to cut federal spending, taxes, and government involvement in business. Almost immediately EXIM began to suffer from the remedies imposed by the interpretation of that mandate. OMB's recommendation was to cut EXIM's budget. Fearing an over-committment of resources and being temporarily without a Chairman, EXIM's Board imposed a moratorium on the issuance of preliminary commitments in the first half of 1981. When a Chairman was selected for EXIM in summer 1981, his policy statements seemed to be a litany of negative statements. The U.S. Government seemed to be saying everywhere that it was de-emphasizing exports.

Here are some EXIM policies which have set the tone for the past year. EXIM has:

Established a 2 percent one-time set-up fee on all loans. Typically, on a 10-year, 12 percent loan, this effectively adds $\frac{1}{2}$ percent to the interest cost of the loan;

Stated as policy that without proof of competition it will turn down loans to airlines in developed countries, on the theory that such airlines are better able to provide financing through commercial banks. (Airbus has no such restriction);

Turned down loans on "established" airplanes such as a Boeing's 747, 737-200 and 727s, arguing that they have no competition, and that it is more efficient use of the Bank's funds to support purchases of new technology airplanes only i.e., 767, 757. (It is an industry fact that all airplanes compete with one another);

Insisted that to be considered for direct credit loans, an airline requesting a loan must be actively considering a competitive bid from a foreign manufacturer. (In virtually all cases, that competitor is Airbus); and

Discouraged the financing of "follow-on" purchases of additional aircraft. (This causes potential customers who anticipate future purchases requiring financing to be wary of being abandoned by EXIM.)

These policies are unnecessarily restrictive, and they cause many potential overseas customers to view American airplane manufacturers as unreliable, if only because of the uncertainties of necessary financing. Airbus, on the other hand, is able to virtually guarantee its financing deal at the opening of sales negotiations. The comparison gives American manufacturers such as McDonnell Douglas and Boeing a serious handicap in the competition for world airline business.

In addition to negative policies of the Bank and the Administration, American producers of aircraft were left at a disadvantage with the Commonline Agreement as negotiated in September 1981. Apart from the difficulties associated with detecting violations of the Commonline, we are disadvantaged by the agreement in several respects: The maximum term for financing an airplane under the Commonline is 10 years. Ten year loans on a product that lasts 15-20 years or more places an unnecessary debt service burden on the world's airlines. That makes it hard to sell airplanes right up front. Europeans do not want longer term because they do not have the long term capital markets to serve this kind of debt funding requirement. Twelve percent is below current market interest rates. This makes subsidized interest rates necessary to meet Commonline terms. As we have seen, our philosophy of government strongly discourages subsidies. It is quite a different story in France, where final assembly of the Airbus is performed.

If we had as aggressive and flexible an export policy as our foreign competitors, we believe that we could have sold over \$1 billion additional in 1982.

Singapore (up to 6 757's or 767's); Malta (2 757's); Nigeria (could have sold more 737's than we have and may have sold 747's and 767's); Brazil (737's to Varig and 767's or 737's to VASP); Colombia (767's to Avianca); Mozambique (4 737's); Peru (2 737's to Faucett); Bangladesh (1-2 747's); Sudan (1-2 737's); Yugoslavia (2 757's to JAT); Ethiopia (2 767's); Niger (1 737); Upper Volta (1 737); Zambia (1 737 or 1 747); and Bolivia (1 727 to LAB.)

The Export-Import Bank annual report for 1981 (just released) notes the significant role of financing in Airbus gains in recent years: "Heavily subsidized government financing assisted Airbus Industrie to capture 35 percent of the world market for commercial jet aircraft in 1981, up from only 5 percent in 1976."

JOBS: THE EXPORTER'S BIGGEST CONTRIBUTION

Most important to the well-being of the country is an export's contribution toward employment—jobs. In the case of Boeing, this includes much more than the 65,000 employees working in assembly plants near Seattle. To a huge extent, Boeing depends on subcontractors and suppliers—and those businesses depend on Boeing sales. A 767, for example, contains more than 3.1 million parts; 61 percent of the airframe's weight and 45 percent of its values is manufactured for Boeing by sub-

contractors. The company's first tier subcontractor and supplier network for the 767 consists of 1,267 companies—including hundreds of small and minority businesses—in 44 states. Second-tier suppliers number in the tens of thousands and are located in virtually every section of the country. This network of "invisible exporters" lays across the fabric of the United States. Most of these firms and their employees, while aware in various ways that they help Boeing make airplanes, do not think of themselves as exporters. But in fact they are.

Detailed analysis by Boeing statisticians shows that each \$1 billion in aircraft sales creates 11,050 jobs within Boeing proper, and another 11,050 jobs with Boeing's suppliers. Thus, \$1 billion in aircraft sales results in 22,100 jobs directly related to the manufacture of the airplanes. In addition, the "multiplier effect" of those original jobs creates another 33,150 jobs outside the industry, for a total of 55,250 jobs per \$1 billion in export aircraft sales. Last year EXIM Bank financing made it possible for Boeing to sell some \$2 billion worth of commercial jets—airplanes that could not have been sold without Bank financing. In so doing, the Bank and Boeing helped create some 110,500 American jobs nationwide. Of those, 44,200 were direct manufacturing jobs in aerospace, and an additional 66,300 were jobs in trade, construction, services and other parts of the labor force, as the demands and incomes of the aerospace workers circulated again and again throughout the economy.

EXIM'S PLACE IN THE OVERALL U.S. STRATEGY

No one seriously suggests that the EXIM Bank is a long-range solution to America's export situation. At best, it is a short-term device, to be used to negate subsidized financing as practiced by other nations and ultimately to bring those nations to the bargaining table.

The best way for all manufacturers to get a fair shake in the marketplace is to eliminate all subsidies to financing, whether they be government initiated or generated by the manufacturer. Boeing supports this view and always has, in the belief that international trade will work best when it is truly free of restrictions and artificial devices. In an ideal world, financing would be equally available to purchasers of any manufacturer's goods. For airlines, decisions to buy would return to the "best product" concept. Financing, if it were equal and available to all, would cease to be a factor in the choice of a manufacturer.

But at the moment, the ideal world is just that—an ideal, a hope. The real world is awash with aggressively competitive financing. It would be dangerously naive for any government to assume otherwise, particularly a government with as much to lose as the United States.

There are several steps that can be taken, however, which will help bring about an end to the international financing struggle in which we find ourselves:

- Negotiate strict, predictably enforceable trade agreements with competing (and potentially competing) nations, defining the limits of political leverage and national subsidies in the financing of airplanes;

- Negotiate an international agreement providing for access to commercial credit sources (for all manufacturers, both U.S. and non-U.S.) of long-term financing;

- Limit the role of government credit agencies of all countries to providing guarantees of loans and the issuance of insurance with all loans made at market rates and market term;

- Eliminate the practice of using commercial exports as tools in the execution of foreign policy;

- Explore international uses of alternate financing devices (e.g. International Equipment Trusts) for aircraft purchases;

- Work toward the long-range goal of the removal of all barriers to truly free trade, so that each nation's competitive advantage can be utilized and capitalized upon to its fullest; and

- Maintain, as a short-term expedient, the Export-Import Bank as an aggressive partner in trade and as a means of negotiating free trade agreements with neighbor nations.

If our foreign competitors were convinced that they had nothing to gain by unsound financing practices, perhaps we could return to a free market. Toward that objective, there is some agreement that the Export-Import Bank is, in the words of one observer, "very much like the Defense Department. In the best of all possible worlds, we wouldn't have to have it. But that's not the world we live in right now."

SUGGESTED CHANGES IN EXIM CHARTER AND S. 2600 EVALUATION

The provisions contained in S. 2600 are practical and comprehensive and, if adopted, will go a long way toward providing remedies in the present U.S. export policy.

We are encouraged by this bill, by its companion (H.R. 6562) in the House and by other EXIM related activities in Washington, D.C. and around the country. Included in these activities is the Cabinet Council on Commerce and Trade's decision to investigate the private sector's concern that there be adequate competitive export financing. We hope that the Cabinet Council will not only consider means of supplementing EXIM Bank but also strengthen that agency as it is our only in-place weapon against predatory financing. We also want to commend Senator Henry M. Jackson for his support of EXIM through the introduction of Senate Resolution S. Res. 458 which resolves to (1) call upon the Senate Banking Committee to investigate ways to strengthen EXIM, (2) calls upon the Senate Appropriations Committee to provide sufficient authority for the Export-Import Bank and (3) asks EXIM to provide U.S. exporters with competitive financial support.

With regard to the specific provisions of S. 2600, Boeing fully agrees with your objective of increasing the independence of the members of the Board of Directors and feel that staggered terms for the Directors would result in a "depolitization" as well as longer planning and more comprehensive and uniform policy in the Bank.

We also see strong reasons for removing EXIM's net lending outlays from the Federal expenditure budget. Much of the criticism, negative image, and political liability of the Bank at present is a function of its being confused with other line items in the budget which represent direct tax dollar expenditures. However, we share some of the concerns which will be expressed by the Coalition for Employment through Exports later in this same hearing. Before EXIM is taken "off-budget" it is important that we are sure we are not trading a present disadvantage of confusion with tax expenditures for new disadvantages not yet anticipated.

The third element in S. 2600 (the Competitive Agricultural Commodity and Manufactured Product Export Subsidy Fund) is also an excellent step in the direction of a comprehensive export support policy. This fund would also be a strong signal to our foreign competitors that we, as a nation, were going to begin dealing from a position of strength on international trade policy. It is important that it be made clear to those who will debate this legislation that such a fund is an arsenal to EXIM's authorized authority. In these and other aspects of the specifics of S. 2600 we are in support and agreement with CEE, of which Boeing is a member and which will give testimony in these hearings.

Next we feel that any re-chartering of the Bank should give some attention to clarifying the directive of the Bank. Given the "new competitive environment" in world trade (characterized by government/industry partnerships and subsidized financing) it is impractical for the Bank not to have a clear and primary directive. We would suggest that the directive for the Bank to be "competitive" be clearly prioritized above the Bank's directive to be "self-sustaining".

Finally, given the Treasury Department's recent decision regarding foreign competition in the Metropolitan Transit Authority purchase of subway cars, it may be advisable to consider the potential for future competitions in the domestic market. In our industry, the Commonline Agreement is not comprehensive where "home markets" are concerned. Other American industries may also be vulnerable to financing on the home front. It may be advisable to consider legislative remedies to strengthen section 1912 of the Export-Import Bank Act to give yet another signal to foreign manufacturers that the U.S. Government is firmly opposed to such market distortions.

Mr. Chairman, this concludes my remarks today. We thank you again for the opportunity to express our views. We applaud and support your continued efforts to strengthen the EXIM Bank, defend American exporters and preserve the thousands of jobs depending on export sales.

INTERNATIONAL COMPETITION IN THE PRODUCTION AND MARKETING OF COMMERCIAL AIRCRAFT

Boeing Commercial Airplane Company
March 1982

Outline

- Industry Overview
- The Changing Competitive Environment
- Market Implications
- Magnitude of European Subsidies
- Financing
- Eximbank Support
- Summary of Industry and National Implications
- U.S. Response Options

Preface

International competition in the commercial aircraft industry has entered a new era. Leading European nations have pooled their resources to unseat traditional U.S. market dominance. The intensity of European resolve is clearly reflected in the following statement:

"If we don't have a place in high technology in Europe we should be slaves to the Americans and our children will be slaves. We have to sell ... we must fight and fight ... The (A300) is the bread and butter of the European aerospace worker."

B. Lathière, President, Airbus Industrie:
Lorell, 1980

The result has been an abrupt shift from a generally free market competitive environment to one in which U.S. private capitalism is pitted against European state capitalism. During the past decade, about 20% of the world market for commercial aircraft has slipped away from U.S. aircraft producers to Airbus Industrie, the predominantly state-owned European consortium.

The loss of U.S. exports and the potential of greater losses to come have caused only moderate national concern. This may be because exports have not traditionally been a major pillar in the American economy. In the past, we were largely self-sufficient in raw materials; our own manufacturers supplied our domestic market.

However, the economy has changed dramatically in the past decade. We are no longer self-sufficient; exports have become vital to our economy. But U.S. economic policy, which has changed very little, still regards exports with benign neglect in general and sometimes with hostility when it comes to export support. By contrast, most other nations recognize the intimate connection between exports, imports, and the health of their internal economy.

Many policy makers continue to believe in pure free trade where adjustments in supply and demand occur automatically through market price adjustments. They also believe that capital and labor can shift freely from one industry to another, a view with a tenuous claim to reality. In practice, rigid wage rates inhibit price adjustments. Instead, if demand slows, output must be cut and labor laid off. Moreover, specialized capital is immobile for technical reasons.

Given the relative immobility of resources and labor cost rigidity, the automatic adjustments called for by free trade theory do not happen. The failure of government policy makers to take these realities into account is dangerous. No other nation takes that risk with its economy.

A succession of U.S. industries have first led then been displaced by foreign competition under prevailing U.S. policy; they include the auto, steel, textile, radio/TV, and footwear industries. For example, Japan imposed high import duties on U.S.-produced cars. At the same time, they gave their own automakers very low-cost government-supported loans to finance construction of the latest and most efficient plants. Our low tariffs enabled Japan to gain enormous production economies by exporting to the U.S.

Japan's dominance owes much to its own efficiency to be sure. However, our free trade attitude gave Japan much of its comparative advantage.

Now another U.S. industry—commercial aircraft—has come under attack. Once again the U.S. Government treats this event with neglect. Once again it resists taking prudent defensive steps and continues to ignore today's competitive reality and the importance of exports.

This report addresses that new danger to our lead in commercial jet transport aircraft.

Industry Overview

During an era in which the U.S. lost ground rapidly in competition for world markets, the U.S. aerospace industry has remained a relative stronghold. U.S. aerospace sales in excess of \$53 billion in 1980 represent two-thirds of the free world total, as do its 1.2 million employees (Figure 1). Civil aircraft, engines, and parts account for about half of these totals. The European EEC countries collectively account for about one-fourth of total sales and employment, with military programs representing about three-fourths of such volume. The significance of the European competitive challenge is evidenced by its increasing market penetration (Figure 2). The reasons for this are discussed later.

In 1980, the positive balance of trade for U.S. aerospace products approached \$10 billion, with commercial aircraft accounting for most of that (Figure 3). However, the U.S. total merchandise trade balance for that year was a negative \$25.3 billion; it is estimated to be a negative \$26 to \$27 billion for 1981 and a negative \$30-plus billion for 1982.

Figure 1

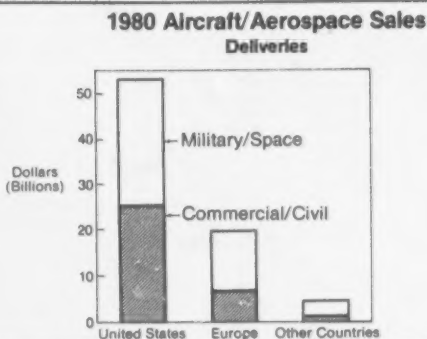


Figure 2

The U.S. Commercial Aircraft Position in Total World Markets Is Eroding

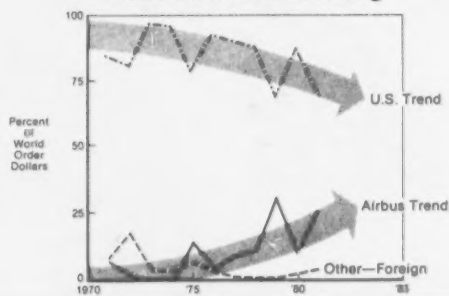
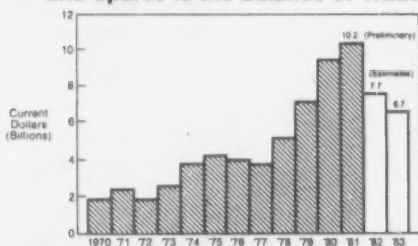


Figure 3

Net Contribution of Commercial Jet Airplanes and Spares to the Balance of Trade



Note: Excludes noncommercial customers and military derivatives. Includes initial and follow-on spares.

Commercial aircraft industry benefits are spread geographically through a broad supplier network. In 1980, more than 3,000 suppliers to prime manufacturers of commercial aircraft received a total of more than \$6 billion in orders (Figure 4). In addition, an estimated 50,000 second- and third-tier suppliers—these two groups are the "invisible exporters"—have skills, people, technology, and research capabilities that also contribute to a strong U.S. industry position.

Commercial aircraft production represents a dynamic growth market (Figure 5) with deliveries valued at \$126 billion in constant 1982 dollars projected for the next 10 years (as forecast by The Boeing Company). Foreign markets are important: deliveries to non-U.S. airlines have represented 55% of the total to date and will represent almost 60% of the total over the next 10 years.

In a free market, U.S. industry would be in a strong competitive posture to meet these opportunities. For Boeing, our productivity growth per year has been significantly above the national average. We do not have a problem with aging facilities and our labor costs are comparable to our European competitors. Our investment for new, modern plant and equipment has exceeded \$2 billion in the last 4 years.

Figure 4

Commercial Aircraft Subcontractors Benefit Almost Every State

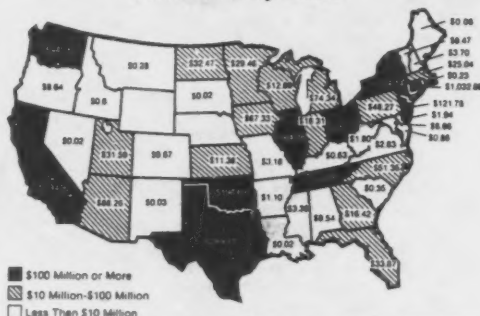
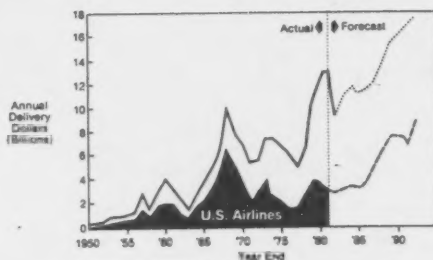


Figure 5

World Annual Commercial Aircraft Deliveries (Constant 1982 Dollars)



Note: Does not include U.S.S.R.-built jets

The Changing Competitive Environment

Increasing market success by the Europeans is attributable primarily to significant changes in the free market competitive environment. These changes began in the 1970s with the emergence of Airbus Industrie, a consortium of major European countries, under the aggressive leadership of France. It was formed by the governments of France and Germany, which were later joined by the U.K. and Spain as partners, and The Netherlands and Belgium as associates. All told, the consortium is about 70% government owned (Figure 6).

Under the free market environment, U.S. industry achieved prominence. Success came to those companies which produced the best products—in terms of aircraft performance, operating economics, and reliability—and offered them at the most competitive prices, plus ensured product support and delivery to meet customer requirements (Figure 7).

Today, a free market environment no longer exists. European governments—with their ownership of both aerospace companies and airlines—have introduced government funding support and subsidies at unprecedented levels, as well as the element of "political leverage" or influence (Figure 8). Although the U.S. Government also provides limited assistance to industry, the contrast in scope and degree between U.S. and European governmental roles accounts for a significant current imbalance. The competition, therefore, has become a government-backed corporation with the potential for unlimited tax-supported capital and political support versus U.S. private industry with limited political support.

European manufacturing subsidies differ among countries but typically include R&D grants, guaranteed low- or no-interest loans, conditional repayment terms, marketing and currency exchange subsidies, and the infusion of equity capital. In many cases, military programs provide the mechanism to infuse new funds into government-owned companies in order to maintain economic viability while commercial programs drain company funds.

Marketing support, provided through sales financing subsidies and political influence, was described by Mr. K. G. Harr, Jr., President of the Aerospace Industries Association of America, in testimony before the House of Representatives Committee on Foreign Affairs (Subcommittee on Economic Policy and Trade) on February 23, 1981:

Figure 6

Ownership of Airbus Industrie

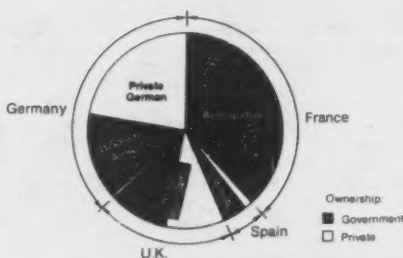


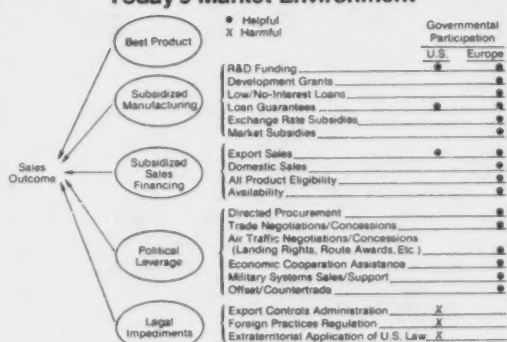
Figure 7

"Best Product" Factors Determine Sales Outcome in a Free Market Environment



Figure 8

Other Factors Are Displacing "Best Product" in Today's Market Environment



"These initial (Airbus Industrie A300) sales were almost certainly directed procurements to 'buy national.' French Finance Minister, Jean-Pierre Fourcade put such pressure on Air France in January 1975. Other sales resulting from government pressure included Lufthansa, Iberia, and more recently Sabena. Once established in a fleet, there is no further need for such pressure: a carrier has an economic incentive to buy additional units (and derivative models) because of the previous investment in spares, training, specialized ground support equipment, crew familiarity, etc.

"Political leverage' is another important factor in the sale of European-produced aircraft. Although difficult to prove conclusively in any legal sense, events have provided evidence that there has been a continuing involvement by governments of Airbus participants to induce aircraft sales by associating sales to political agreements such as: (i) trade agreements, (ii) route awards/landing rights/frequency rule adjustments (e.g., Korean landing rights in Paris, Iberia frequency agreement in European routes, Swissair traffic rights with France, U.K., FRG, etc. (see, for example, Interavia (Geneva) Air Letter #9574), and (iii) military weapons support (e.g., military airplanes to South Africa), and (iv) economic/regional assistance (e.g., atomic power plants to Iran, petro-chemical plant and Paris real estate joint venture to Kuwait). A recent twist to the 'political leverage' was Australia using Trans Australia Airlines' (TAA) purchase of A300s as leverage on the EEC to buy more Australian mutton.

"Another approach used by government-backed European aircraft producers to induce sales is the provision of special terms that exceed the bounds of normal commercial practice. For example, the Airbus sale to Eastern included a 'Deferred Seat Plan' in which 12 of the 23 airplanes will be paid for as if they had only 71% of the 240 seats for up to 4 years or until load factors exceed a certain level. (See *Air Transport World*, July 1978, page 25, and hearings before the Subcommittee on Trade, House Ways and Means Committee, July 14, 1978, Report 95-101). Although seats will eventually be paid for, the deferral is interest-free. Eastern also had use of four A300s for a 6-month trial period without lease cost."

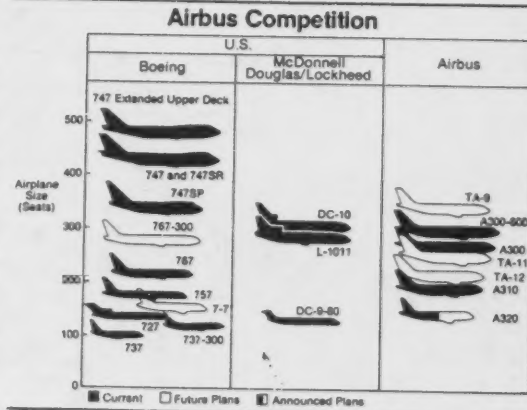
The size of public subsidies and support provided to European commercial aircraft programs will be addressed later in this report. Suffice it to say at this point that these subsidies are of such magnitude, they cannot be matched by the resources of U.S. private industry.

By contrast, U.S. Government involvement in support of commercial aircraft sales is limited to its export-financing facility (Exim-bank) and modest levels of NASA funding for research and development activities not directly related to a particular product or program. On one occasion, a loan guarantee was provided to assist the financially troubled Lockheed Corporation, which has since gone out of the commercial aircraft business. At the same time, policies imposed by the U.S. Government constrain or impede U.S. manufacturers in their pursuit of export sales. Export licensing, the concept of extraterritorial application of U.S. law, and the Foreign Corrupt Practices Act are some policies that deny markets to U.S. manufacturers, impede sales efforts, or create distrust and uncertainty in the minds of foreign customers when dealing with American firms.

Market Implications

Airbus Industrie has and continues to develop a family of aircraft that compete against most U.S. products (Figure 9). The capability of European industry to develop technically viable commercial transport aircraft has existed for some time; it stems from the infrastructure already in place for building military and commuter aircraft. It is also supported by the availability of U.S. engine technology and the use of U.S. equipment and systems on European civil aircraft. Extensive government financial support has permitted the expansion into the commercial aircraft field by offsetting the technical, production, and marketing advantages of U.S. firms.

Figure 9



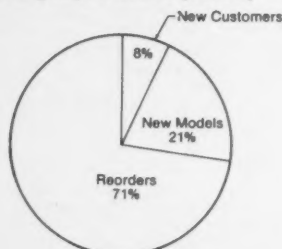
The U.S. Eximbank normally limits its direct credit resources to support sales which it narrowly defines as directly competitive with Airbus products. Over the past several years, Airbus has competed successfully at one time or another against all U.S. aircraft because various fleet-mix combinations of aircraft are possible to accommodate airline needs. For example, aircraft of different size and range can accommodate a given route structure through variations in schedule frequency and intermediate stop-over arrangements. Moreover, Airbus, Fokker, and British Aerospace are expanding their product lines so that competition will intensify.

The political leverage and sales financing subsidies provided by the Europeans in support of Airbus Industrie play a strategic role in sales. Such support is critical in initial-order campaigns because of the long-term implications. When an airline has a choice between two similar models to meet a fleet requirement, the airline generally standardizes on its initial aircraft choice (Figure 10). Experience demonstrates that for every airplane in an initial order, more than three follow-on airplanes are ultimately sold. Therefore, it is critical to win initial key sales to gain entry into a carrier's fleet and thereby ensure follow-on orders.

Although European programs have been economic failures by U.S. industry standards (as demonstrated later in this report), there can be little question of the success of its marketing strategy. Airbus Industrie has received orders from more than 42 airlines in over 35 countries throughout the world (Figure 11), thereby capturing approximately 20% of the world market for commercial jet transports. Of particular concern is the recent acceleration of this market penetration (Figure 12). The erosion

Figure 10

Importance of Follow-On Orders—1971-1981 Boeing Export Orders (Dollars)



Total Orders: \$26.8 Billion
The first head-to-head competition is critical.

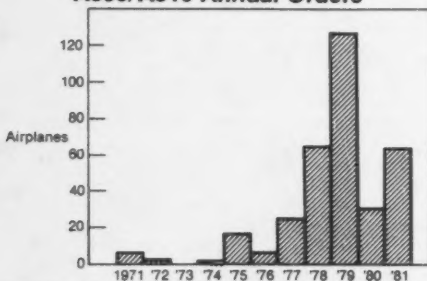
Figure 11

The All-Out Multinational Sales Campaign by Airbus Industrie December 1981



Figure 12

A300/A310 Annual Orders



of U.S. market position in international (non-U.S.) markets is even more dramatic (Figure 13).

The European sales strategy could be successful through the remainder of this decade. Industry sales of \$126 billion (1982 dollars) are projected for the next 10 years, of which an estimated \$75 billion or about 60% will be to non-U.S. airlines (Figure 14). These airlines are largely government-owned or controlled and are often susceptible to the political pressures and subsidized financing arrangements that characterize European sales strategy. This is evidenced by the overwhelming majority of Airbus Industrie sales to date that have been to government-owned airlines (about two-thirds of all orders) and almost half have been to European airlines. By way of contrast, only 13% of all orders for Boeing's latest models, the 767 and 757, have been to government-owned airlines (Figure 15). These are the Boeing models most directly in competition with Airbus Industrie.

Figure 13

The U.S. Commercial Aircraft Market Position Is Eroding Rapidly in International (Non-U.S.) Markets

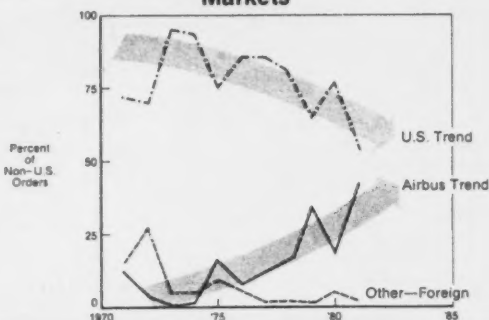


Figure 14

\$126 Billion Open Market Through 1992 Deliveries (1982 Dollars)

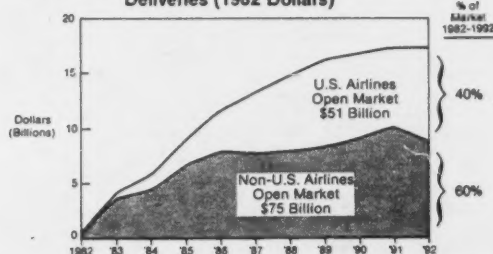
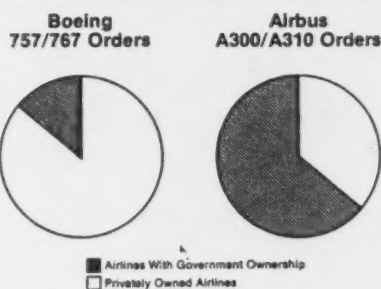


Figure 15

The Reality of "Political Leverage"



Magnitude of European Subsidies

Manufacturing subsidies provided by European governments in support of Airbus Industrie are estimated to exceed \$5 billion to date (1982 dollars). While this is not the total value of subsidies provided (excludes sales financing subsidies), it is one of the primary areas of public funding support. In 1982 constant dollars, a subsidy of \$5 billion approximates the cumulative before-tax earnings generated by The Boeing Company's commercial jet age about 25 years ago. Since Airbus Industrie policy is to "match" the price of U.S. aircraft, the effect of the subsidies is to nullify the price advantage that would otherwise result from superior U.S. productivity and cost performance and make a sham of international trade agreement policies against dumping.

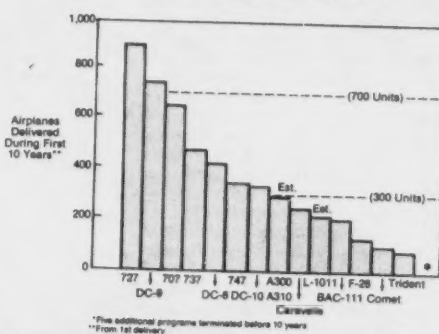
An explicit itemization of the subsidies provided by European governments to Airbus Industrie is not available due to the number of nations involved, each with a variety of different subsidies. Nevertheless, it is possible to estimate the total magnitude of government subsidies provided to the manufacturing partners of the Airbus A300 program. This is done by first defining the cash flow profile for a typical U.S. program and then adjusting this profile to reflect information known about the Airbus program such as phasing, quantities produced, etc. The current and projected deficit cash flow, which can only be covered by government subsidies, is then quantified. Although such an approach may not precisely measure the subsidy level, it provides clear insight into the unprecedented magnitude of European government commitment to its objective "to win a significant and lasting share of the civil air transport market."

The cash flows described in the discussion which follows reflect several fundamental economic realities that characterize the industry:

1. Commercial aircraft production requires an extremely large initial development investment and a long development lead time. The non-recurring or launch costs of designing, developing, and fabricating tooling and certifying a typical new medium-sized airplane approximate \$1.5 billion. Recurring costs incurred prior to first aircraft delivery double this investment.
2. Recurring costs are subject to the improvement curve phenomenon. High initial labor costs diminish progressively with units produced due to efficiencies achieved with the repetitiveness of operations.

Figure 16

Only Government-Supported Programs Can Survive Low-Volume Production



3. Because of these factors—high initial development cost, long development lead times, and the improvement curve phenomenon—it takes a long time and a substantial production volume to amortize the initial development investment as well as to bring the unit recurring cost down sufficiently to permit such amortization.
4. Production volume limits the number of producers that can be sustained by the market on a profitable basis. It is believed that only about half of the U.S. programs to date have achieved profitable outcomes. Fewer can be considered financial successes on the basis of the rate of return. Most European programs have been financial failures. This generally poor financial performance is largely explained by inadequate production volume. Only two of the 19 major commercial jet aircraft programs in the world to date have exceeded 700 aircraft during the first 10 years of deliveries (Figure 16). Only seven have exceeded 300 units over the same delivery period.

A typical U.S. program the size of the Airbus Industrie A300 would involve about a 4-year development period. Assuming the delivery of 700 units within a 10-year period after development, the program would reach a peak negative cash flow of about \$3 billion (constant dollars) and would break even about 12 years after the go-ahead (Figure 17).

Actually, the Airbus A300 program experienced very low initial sales, delivering only 57 airplanes over the first 4 years of deliveries. It will deliver about 300 aircraft during the first 10 years of deliveries: Figure 18 illustrates the impact of such reduced volume or delivery stretch-out.

Stretch-out of the A300 was further aggravated by a 5- rather than 4-year development period. It would require about 16 years to reach delivery of 700 units if sales anticipated by Airbus Industrie were achieved. In addition, European production costs are significantly higher than those of the U.S. commercial aircraft industry, due largely to low production rates which limit productivity improvements. Assuming a conservative 25% difference in production costs and the substantial stretch-out for the A300 program, the cash flow for the hypothetical U.S. program would deteriorate to a peak negative investment of about \$6 billion by 18 years from the date of program go-ahead and would have no prospect for breakeven (Figure 19). The investment requirement would, of course, be substantially higher in terms of current dollars. It would also increase with the addition of a major derivative, such as the Airbus A310.

It is apparent that Airbus programs have been extensively subsidized, probably well in excess of \$5 billion to date. The \$5 to \$6 billion total program subsidy spread over 700 airplanes equals a per-airplane subsidy of \$7 to \$8 million, or 20% to 25% of airplane price. This equates to selling at below cost and violates the intent of international agreement.

These conclusions, which suggest no feasible prospect of breakeven for the Airbus programs, conflict with recent Airbus news releases stating that "payback" of government-provided funds is currently underway. Although the consortium currently reimburses participating governments at the rate of \$3 million per airplane sold, this is not a true economic payback and does not even cover the \$7 to \$8 million subsidy per airplane mentioned above. This so-called "payback" is simply a transfer payment that is more than offset by the continuing infusion of new funds from sponsoring governments for current aircraft and their derivatives, as well as for planned new models.

Figure 17

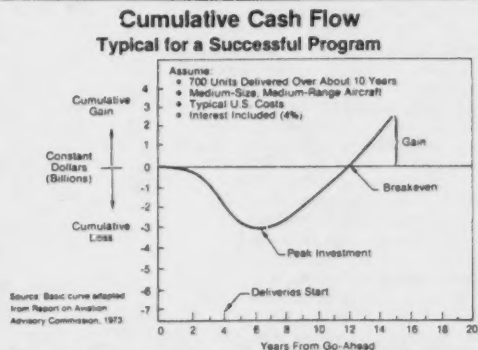


Figure 18

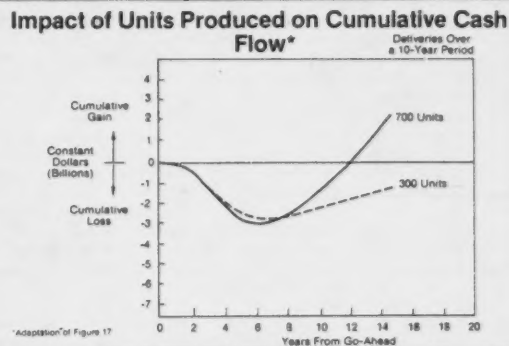
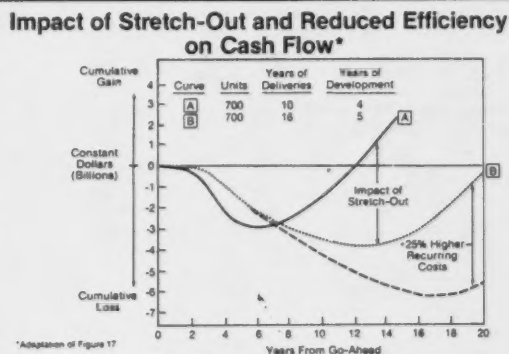


Figure 19



A comparison of cumulative deliveries of wide-body airplanes currently in service confirms these conclusions (Figure 20). For example, the L-1011, which has been consistently ahead of the Airbus A300 in cumulative aircraft deliveries, has recently been terminated due to economic losses resulting from insufficient volume. These losses have been reported at between \$2 and \$2.5 billion in current dollars. This would increase to about \$5 billion in 1982 constant dollars, or to over \$7 billion with the inclusion of interest at 4% on invested funds. Although not a wide-body aircraft, the U.S. Convair 880/990 program delivered 102 airplanes over a 6-year period and had to be terminated because of the negative economics of low-volume production. The A300 delivered only 81 airplanes over a comparable time period.

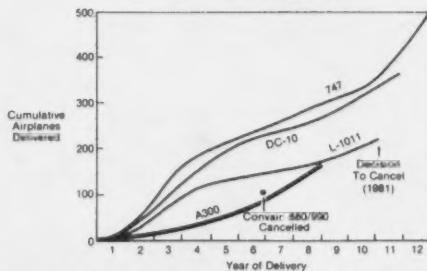
These comparisons indicate that A300 production would have been abandoned some time ago under U.S. private industry economic criteria. However, manufacturing subsidies allowed the program to survive, and government marketing assistance (sales financing subsidies and political leverage) have provided the market penetration required to sustain the program in the future.

It is emphasized that the preceding discussion refers only to subsidies to manufacturers. These levels must be adjusted upward to reflect the multitude of other subsidies referred to earlier (exchange rate, R&D, sales financing, etc.).

Concurrent with program subsidies and the application of political leverage to achieve competitive parity with U.S. producers, the European industry is undergoing extensive plant modernization. This is funded either by the direct infusion of capital into government-owned plants or through government-supported financing. It is reasonable to assume that U.S. productivity and cost advantages could ultimately diminish. Similarly, U.S. technological superiority could be narrowed by extensive European governmental R&D funding. In essence, the Europeans are "buying in" at tremendous cost and are betting on the anticipated national economic benefits to justify such investments.

Figure 20

The A300 Would Have Been Cancelled as a Private Program



European government subsidies are expected to continue. The A310 program has added substantially to the level of manufacturing subsidies described with respect to the A300. If the A320 program is launched, European government subsidies will grow still further. The Europeans appear prepared to provide the subsidies necessary to build a family of products that will compete with U.S. products throughout the total market. With a family of Airbus aircraft plus technological and productivity improvements, existing U.S. industry advantages will diminish and the need for European subsidies will drop below current levels.

European willingness to extensively subsidize its commercial aircraft industry on a long-term basis is not difficult to understand when the economic benefits derived from industry exports are considered. This subject will be discussed later as it affects U.S. industry. The Europeans seem well aware of the high benefit-to-cost rationale involved.

Financing

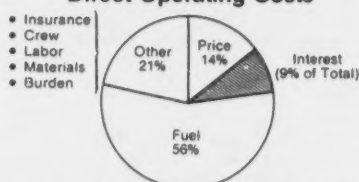
As European commercial aircraft make inroads on the technological lead of the U.S., factors other than technical differences assume increasing significance. Currently there is a relatively small, but highly significant, margin of technical difference between competing commercial aircraft designed at about the same time. This is because state-of-the-art technology is generally known to all aircraft manufacturers. Furthermore, attempts to use unproven technology on commercial aircraft usually involve unacceptable risk and investment. Once an airplane has been designed and is being produced, the opportunities to enhance or achieve technical superiority are even more limited. New or improved engines offer the greatest potential, but they are available to all manufacturers. Other changes generally produce only modest incremental improvements at significant cost and, therefore, are usually not economically feasible.

For this reason, aircraft financing plays an increasingly important role in determining the success of sales. It typically represents 9% to 10% of program life cycle costs, a big enough factor to "tip the scales" in close competitions (Figure 21). For example, assuming 100% financing, an interest rate advantage of two percentage points nullifies a 4% to 5% advantage in fuel efficiency for a typical modern aircraft (Figure 22). In context with other inducements and the trend toward technical parity among competitors, a financing advantage of that magnitude could well determine sales outcome. Viewed in terms of pricing implications, a two-percentage-point interest rate advantage by one competitor requires the other to provide a 7% reduction in aircraft price in order to provide equivalent economic benefits to the airline (Figure 23).

Official export financing is governed by international agreements which set minimum rates and maximum terms that theoretically provide financing parity between Airbus and U.S. aircraft manufacturers. However, the Europeans consistently offer the most advantageous financing terms allowed by the agreement while Eximbank, by choice, does not. For example, the Eximbank policies regarding loan fees, model limitations, and exclusion of developed countries from loan eligibility result in a less competitive environment for U.S. producers. Even if U.S. product superiority were sufficient to offset Airbus financing advantages, the impact of such benefits must be viewed in context with the other economic and political inducements offered by Airbus Industrie governments.

Figure 21

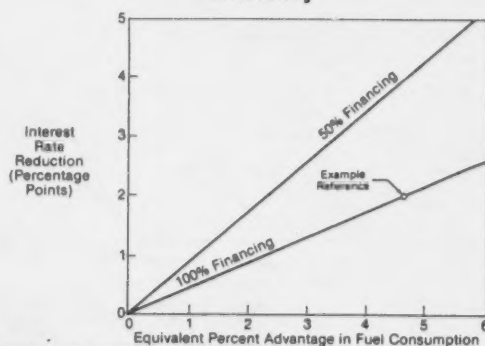
Typical Distribution of Aircraft Life Cycle Cash Direct Operating Costs



Sales Financing—Big Enough to "Tip the Balance"

Figure 22

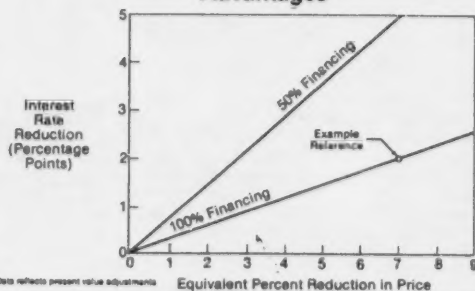
Interest Rate Subsidies Can Offset Fuel Efficiency



Data reflects present value adjustments

Figure 23

Interest Rate Subsidies Can Offset Pricing Advantages



Data reflects present value adjustments

The extensive use of financing subsidies by Airbus Industrie is well established, as reflected in the candid statement made recently by Frank Borman, Chairman of Eastern Air Lines, concerning that airline's purchase of Airbus aircraft:

"If you don't kiss the French flag every time you see it," Borman recently told an employee gathering, "at least salute it. The export financing on our Airbus deal subsidized this airline by more than \$100 million."

Business Week: January 11, 1982.

For U.S. industry to remain competitive, European advantages in sales financing must be neutralized. The recommended solution is development of an agreement between all aircraft- and engine-exporting countries to eliminate financing as a competitive element in aircraft sales. A final agreement on export financing must involve use of private sector financial institutions worldwide. These capital markets could potentially provide the financing required to support both U.S. and foreign aircraft exports in any currency desired by the prospective borrower. They can also provide financing more commensurate with the expected useful life of the aircraft. Access to, and terms of, such financing must support all exports on a non-discriminatory basis.

This solution would limit government involvement through export credit agencies in export financing to that of guarantors of the latter maturities of market rate financing supplied by commercial sources. Interest rate subsidies would be eliminated as a trade-off for removal of the current 10-year restriction on term, which could then be increased to a minimum of 15 years. The export credit agency guarantees would support funding from whatever commercial source in any capital market worldwide selected by an airline. This change would eventually reduce the export credit agencies' role to that of a supplier of political risk insurance; the asset value of the aircraft would be primary security for the lending institutions.

As a practical matter, it could cost a foreign manufacturer more to use the U.S. capital market than it would a U.S. manufacturer. Conversely, U.S. manufacturers could face similar cost differentials in using capital markets in other countries. Therefore, to achieve non-discriminatory long-term financing, official export credit agencies may need to neutralize the cost differential caused by use of off-shore funds. This should not be construed as an unfair trade subsidy since its only purpose would be to rectify market imperfections and ensure parity of financing terms to prospective borrowers.

Figure 24

Current International Agreements Are Necessary—But Not a Solution

Problems/Deficiencies

OECD Standstill Agreement 1973	10-year-term limitation is significantly less than useful product life and precludes taking advantage of longer term financing available in private capital/money markets - Silent on interest rates - Allows 90% cover
GATT Subsidies Code 1979	12-nation sanction (OECD nations) exempts civil aircraft from interest subsidy prohibitions
Agreement of Trade in Civil Aircraft 1979	- Does not address export financing - Prohibitions against political inducements, directed procurement, and price subsidies difficult to enforce
Common Line Agreement 1981 (France, U.K., FRG, U.S.)	- Interim amendment to Standstill - Reduces cover but retains 10-year financing limit 12% interest limit still below market rates - Intra-agency sales not covered except for recent verbal declaration by Airbus countries not to subsidize sales financing in U.S. market - Limited to U.S.-made and Airbus Industrie jet transports

Although a number of international agreements have evolved concerning commercial aircraft, they are basically inadequate (Figure 24):

- They continue to permit subsidized sales financing.
- The repayment term for officially supported export credits is limited to 10 years, which precludes the use of long-term capital markets.
- They do not formally eliminate the potential threat of European subsidized financing of sales to U.S. airlines. Possible U.S. options in retaliation to such an eventuality are also unsatisfactory. Although existing U.S. law permits the Eximbank to match predatory financing by the Europeans in sales to U.S. airlines, the law has never been applied; current Eximbank funding policy makes the likelihood of an effective response difficult. Further, U.S. legal recourse based on GATT Subsidies Code violations is questionable and even if possible, U.S. aircraft producers would be reluctant to support such legal action against their customers.
- The agreement to limit political inducements, directed procurement, and price subsidies (Agreement on Civil Trade in Aircraft) is vague on enforcement and the mechanism for such enforcement is inadequate. It depends, in the end, on consultation, persuasion, voluntary disciplines and, ultimately, political interpretation.

Therefore, an arrangement that neutralizes sales financing as an element in competition is clearly necessary. Until such time, however, the U.S. must maintain a strong Eximbank to ensure that export sales are not lost for lack of competitive financing. Unless present U.S. Government policies are reversed, U.S. manufacturers will be at a distinct disadvantage.

Eximbank Support

Eximbank is an independent government agency incorporated by Congress in 1945 for the purpose of promoting exports. The authorizing legislation required that it operate as a self-sustaining institution and provided an initial capitalization of \$1 billion. Since that time, the bank has produced adequate earnings to more than offset its costs, which include the cost of borrowing through the Treasury in the open capital market. It has more than tripled its initial \$1 billion in capital and has paid the Treasury in excess of \$1 billion in dividends.

Contrary to a widespread misconception, the Eximbank does not receive appropriations of taxpayer revenues to cover direct loan amounts. The Eximbank is, however, included in the unified federal budget, where limitations on its program activity and operating expenses are imposed. In other words, Congress establishes a ceiling on the level of program activity for which the Eximbank is authorized to borrow funds to cover its loans.

The costs of Eximbank financing are borne by neither the Government nor the taxpayer, but by the Bank itself (just as any other bank) through loan repayments and earnings on interest. Eximbank also makes money through its guarantee fees and insurance premiums.

Since Eximbank loans appear in the unified federal budget, they may be perceived by many persons as expenditures that should be subject to the same budget reductions directed at other government programs. It may appear to be only fair to reduce expenditures for a program affecting industry if cuts impacting other segments of society are to be made; however, such a cut is, in fact, illusory.

Because the cost of borrowing has exceeded Eximbank lending rates in recent years, the Bank may encounter its first operating loss unless market rates decrease or an international agreement is reached to disallow subsidy financing. However, since in the past Eximbank borrowed at rates significantly below their lending rate, they accumulated the \$2 billion in retained earnings now being used to make up any interest rate differences. Today's interest differential and direct loan levels would have to continue for over 5 years for these retained earnings to be exhausted.

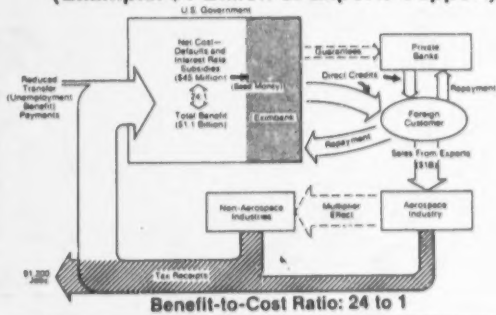
The cost effectiveness of Eximbank support is evident when viewed in terms of the benefit-to-cost ratio. Based on studies performed by Chase Econometrics Associates for the Aerospace Industries Association of America, Inc., financial benefits (in the form of tax revenues generated and transfer payments saved) that result from Eximbank support exceed the costs by a factor of 24, even if borrowing costs are assumed to exceed Bank lending rates by a three-percentage-point interest rate differential* (Figure 25). Each \$1 billion in export sales results in:

- 91,200 jobs over time
 - \$2.9 billion of U.S. economic activity
 - \$1.1 billion (present value) in governmental financial benefits
 - This \$1.1 billion in governmental financial benefits is equivalent to \$1.75 billion on a current-dollar basis and is made up of:
 - \$800 million in federal taxes
 - 300 million in state and local taxes
 - 500 million in social security receipts
 - 150 million in savings in unemployment payments
- \$1,750 million

*Based upon the value of 42.5% funding, a 3% differential and 10-year repayment including loan and guarantee fees. Benefits and cost discounted to 1980 dollars at 15%.

Figure 25

Financial Benefits Far Outweigh Costs Involved (Example: \$1 Billion of Exports Support)

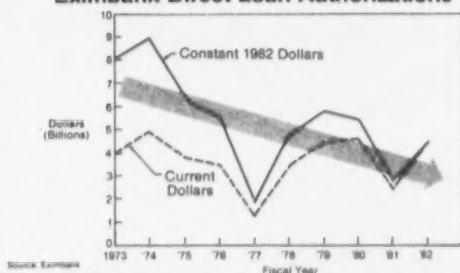


Equally significant, and unlike most investments, the benefit stream begins to accrue before the "investment" in interest rate subsidy is paid. This is because employment and tax revenue benefits are initiated at the time of order, while loan payments, for the most part, do not begin until the airplane is delivered.

Eximbank direct loan authorizations currently approximate \$4-plus billion annually and have been declining in real terms (Figure 26). Currently, the U.S. export support programs are substantially less than those of major European countries (Figures 27 and 28). Although the goal is to reduce subsidized financing, U.S. support of commercial aircraft has provided a relatively high yield compared to other industries. For example, the value of commercial aircraft exports supported is high, but the percent of export value covered is relatively low (Figure 29). Stated another way, the export yield is high per dollar of support.

Figure 26

Eximbank Direct Loan Authorizations



Source: Eximbank

Figure 27

Extraordinary Export Support to U.S. Programs Is Relatively Small

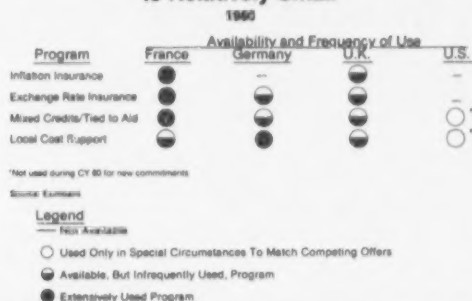
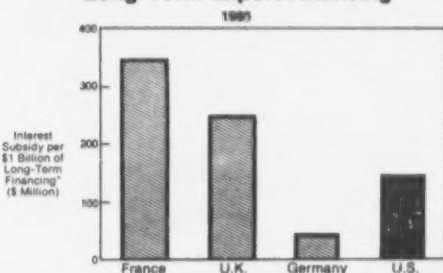


Figure 28

U.S. Lags Europeans in Subsidies To Support Long-Term Export Financing



*Total interest expense over 10-year repayment of each \$1 billion of authorizations

Source: Eximbank

Strong interim Eximbank support is particularly important because of current airline earnings (Figure 30). Airline earnings are at an extremely low point due partly to current world economic conditions and partly to the disruptions associated with recent deregulation legislation. The proliferation of route awards, new airline entries, and unrealistic fare discounts have contributed to the current airline financial crisis. Presumably, this situation will be rectified over time; however, until such turnaround, the airlines will be extremely vulnerable to foreign economic initiatives tied to sales campaigns. U.S. producers will be particularly vulnerable when competing against European products unless they receive matching Eximbank support.

Industry and the Administration view the role of Eximbank differently (Figure 31). While both agree upon ultimately reducing its role in subsidized financing, significant differences exist concerning the most appropriate interim posture. It is industry's view that unilateral phase-out will result in serious implications that are contrary to U.S. national interests.

Figure 29

U.S. Aircraft Exports Require Proportionately Less Eximbank Participation

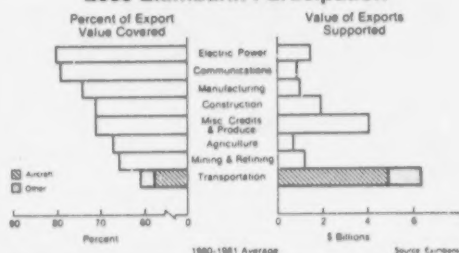


Figure 30

Net Earnings for World Carriers Are at a Low Point

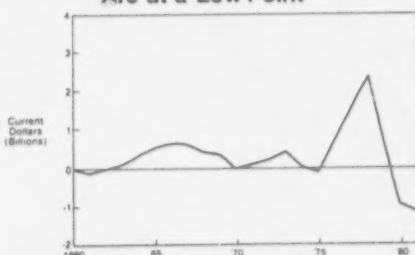
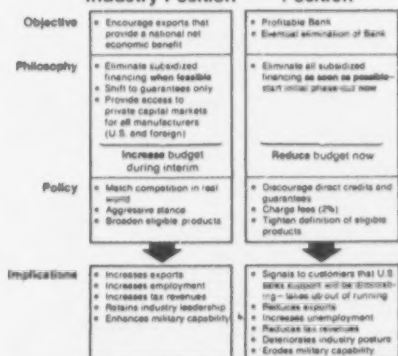


Figure 31

The Role of the Eximbank



Summary of Industry and National Implications

The problem posed by Airbus Industrie to the U.S. commercial aircraft industry is much larger than current competition over pending sales. Potentially, it is a major threat to long-term interests by displacing U.S. industry from certain countries and even whole regions, perhaps permanently. The deteriorating competitive posture of U.S. aircraft producers in international markets detrimentally affects other major U.S. national objectives, e.g., reduction of unemployment rate, reduction of inflation rate, minimization of the budget deficit, maintenance of a strong military posture, improvement in balance of trade, etc. (Figure 32).

The competitive practices of Airbus Industrie present the U.S. with a genuine challenge of historic proportions. Can institutions of the U.S. Government and economy adequately cope with the new form of state capitalism threatening the competitiveness of the nation's strongest export product (Figure 33)? Without a significant shift in current U.S. governmental attitudes and policy, the prospects are extremely dim. Conversely, appropriate U.S. actions that return international competition to a free market environment and neutralize the competitive advantages attributable to European subsidies and political initiatives, could provide for continued U.S. pre-eminence in the commercial aircraft industry.

Figure 32

The Significance and Interrelationship of International Competitive Posture to Other Major National Objectives

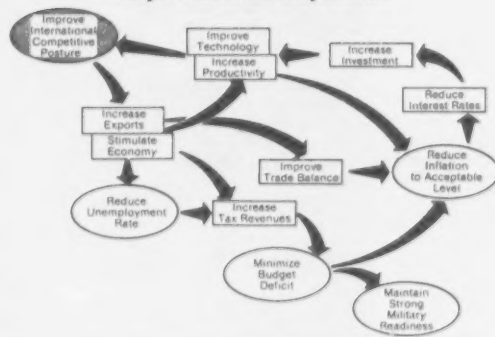
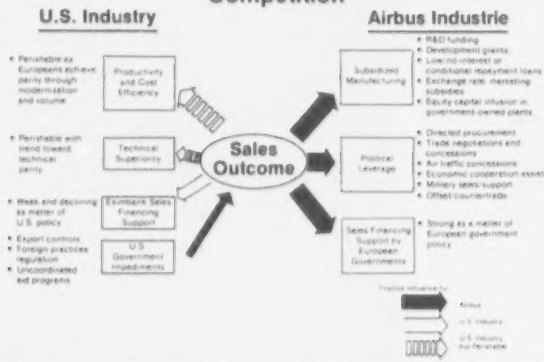


Figure 33

Factors in the Commercial Aircraft Competition



At present, however, the scale is tipping rapidly in favor of the Europeans in international competition for commercial aircraft markets (Figure 34). European producers enjoy a substantial advantage in terms of subsidized sales financing; production subsidies to European aircraft manufacturers neutralize U.S. productivity and cost-efficiency advantages; U.S. technological superiority is diminishing with time and is being offset by European political leverage and sales financing advantages. Add to all of these European advantages the legal impediments imposed on U.S. industry by the U.S. Government.

All markets are in serious jeopardy to U.S. aircraft producers (Figure 35):

- The U.S. market is potentially vulnerable to European products through European sales financing subsidies, for which there is no adequate U.S. retaliatory response mechanism.
- European markets are closed either by virtue of government ownership of industry (both manufacturing and airline) or are subject to strong political pressure to "buy European." Declining Eximbank support compounds the problem.
- Other countries are the object of an intensive European political offensive, in which commercial aircraft sales are tied to other government-to-government negotiations. Again, declining Eximbank support puts U.S. producers at a sales financing disadvantage.

U.S. industry declining share of foreign markets results in reduced production quantities and a corresponding deterioration in cost performance benefits related to economies of scale. Perhaps more importantly, foreign markets tend to offset or counterbalance cyclical swings of the U.S. market. For example, in 1970 all of Boeing commercial aircraft orders were from foreign airlines, compared to less than half during the preceding year. Whether an economically viable U.S. commercial aircraft industry can exist without a strong international sales base is questionable.

Figure 34

The Scale is Tipping in Favor of European Industry

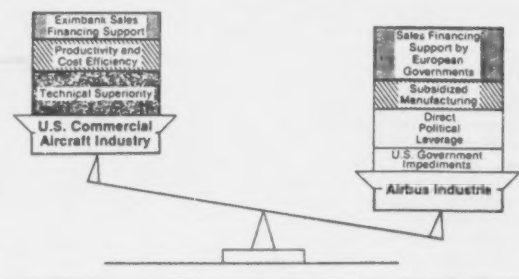


Figure 35

Markets in Jeopardy to U.S. Producers

Percent of World Market		Reason
	U.S. 40%	• Airbus subsidized financing for sales in the U.S. precluded only by verbal and informal declaration • U.S. resolve and practical ability to retaliate, if Airbus predatory financing occurs, is questionable
	Europe 22%	• Airbus political leverage • Eximbank budget constraints • Highly restrictive Eximbank financing policies*
	Other Countries 38%	• Airbus political leverage • Eximbank budget constraints • Restrictive Eximbank financing policies • U.S. legal impediments

*Applies to all industrialized countries, i.e. Japan, Canada, Australia

The 20% erosion in the U.S. industry market share that has already occurred has precipitated the start of an industry deterioration cycle. The Lockheed Corporation has withdrawn from commercial aircraft production. McDonnell Douglas is facing a difficult situation with its commercial aircraft business. Commercial aircraft program profitability is very dependent on the number of aircraft produced of a given model. A significant number of aircraft must be sold before a program reaches breakeven, and the magnitude of program profit ultimately realized depends upon the number of aircraft produced and sold beyond that point. Accordingly, a small erosion in market or total aircraft sold results in a substantially higher percentage erosion in profit.

Such profit erosion accelerates the industry deterioration cycle. As noted in **Figure 36**, profits or gain provide the source of funds that feed R&D and technological improvements, as well as the capital improvements that generate productivity gains. Program financial gains also provide the funds to launch new programs. Together these factors determine the overall competitive posture of the industry. Competitive posture, in turn, determines sales level and profit margin, which translate into future earnings. The erosion of either sales or profit margin reduces the funds available to sustain or improve competitive posture and launch new programs (**Figure 37**). When U.S. corporations attempt to match European sales financing subsidies without Eximbank support, profit margins are eroded and the deterioration cycle is triggered. If no attempt is made to match such subsidized sales financing, market erosion occurs, which produces the same outcome—eroding profits and the onset of the deterioration cycle.

Airbus Industrie recognizes this concept and capitalizes upon the disparities between U.S. and foreign financing packages in its sales strategy. By providing more favorable financing terms, U.S. aircraft firms are forced into the role of banker, trying to compete with the central banks of Europe. This results in a drain upon resources and the ultimate erosion in competitive posture. Mr. Lathière, President of Airbus Industrie, made the following points in a recent interview:

"He (Lathière) reasons that U.S. airlines will be able to negotiate better purchasing terms by pitting Airbus against Boeing. 'Our strategy is to be a presence in every Boeing deal,' says Lathière.

"Boeing spent a lot to keep us out of the U.S. . . . but the money they put on the table to clinch those deals they won't have available to spend elsewhere."

Fortune, April 1980.

Figure 36

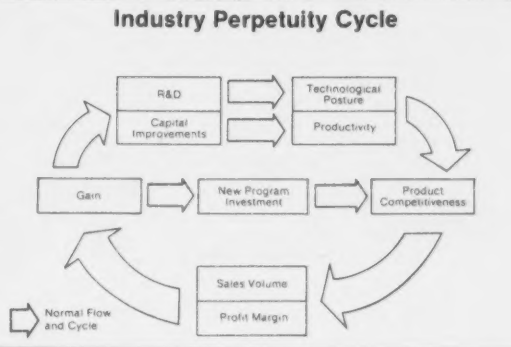
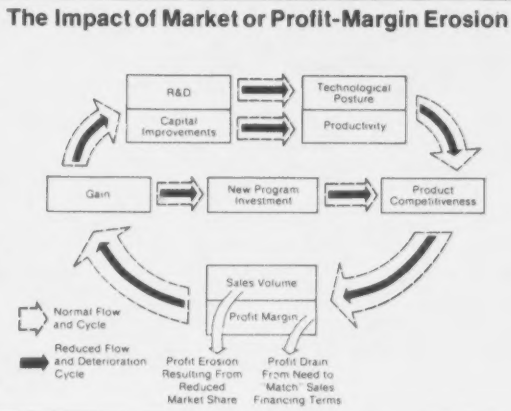


Figure 37



The cyclical nature of employment requirements that characterize commercial aircraft production could translate into further competitive disadvantages to U.S. industry. Because of European subsidies, Airbus Industrie can afford to build aircraft for inventory during periods of business decline. Such aircraft would then be deliverable "on demand" rather than with 1- to 2-year lead times, as currently required, with advance payments at the time of order. The U.S. industry could not absorb the inventory costs associated with such a practice, nor could it compete against the resultant order lead time and advance payment advantages.

From a national perspective, the erosion in U.S. industry's market position results in major economic disruptions in the U.S. The 20% reduction in market share that has already occurred translates into the loss of 255,000 jobs and the following annual financial impacts: a \$4.5 billion reduction in tax and social security revenues; an increase of \$400 million in unemployment benefit payments; and the loss of about \$2 billion in trade balance contribution (Figure 38). By way of comparison, the annual tax loss resulting from a 20% market loss exceeds the annual federal tax revenues generated by either gasoline or tobacco and about two-thirds of that generated from customs receipts (Figure 39). Continued erosion in the U.S. industry market position will result in further losses of tax revenues, exports, and jobs (Figure 40).

Figure 38

The Impact of a 20% Erosion in U.S. Position in World Commercial Aircraft Markets

Jobs Lost	255,000
Annual Loss in Government Revenues:	
• Federal Taxes	\$2.3 Billion
• State/Local Taxes	0.8 Billion
• Social Security Payments	1.4 Billion
Annual Increase in Unemployment Payments	0.4 Billion
	\$4.9 Billion

Figure 39

Commercial Transport—A Major Tax Source in Jeopardy of Erosion

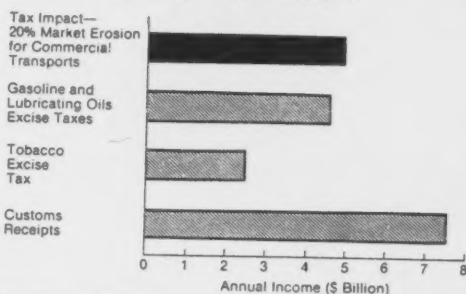
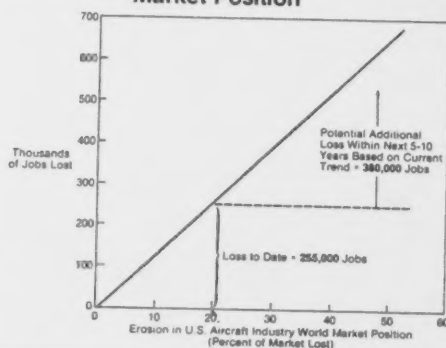


Figure 40

U.S. Job Loss vs. Erosion in U.S. Industry Market Position



U.S. Response Options

Several U.S. response options merit consideration. In Boeing's view, the preferable emphasis should be on restoring the discipline of an open competitive market environment.

The central issues are:

- **Government-subsidized sales financing**, for which the U.S. equivalent (Eximbank) has become less competitive as a matter of U.S. policy. In addition, international agreements and U.S. retaliatory capabilities are inadequate to preclude the future threat of predatory financing by Airbus in sales to the U.S. market.
- **European manufacturing subsidies**, which amount to product pricing at below product cost.
- **European political leverage**, which influences sales outcome by relating commercial aircraft sales to trade or air traffic negotiations/concessions, as well as by directing procurement of government-owned airlines.
- **U.S. Government legal impediments**, which place U.S. producers at additional competitive disadvantages and account for a growing reluctance among foreign airlines to deal with U.S. producers when alternative foreign products are available.

These factors act in concert to displace the U.S. commercial aircraft industry from a significant and growing portion of the worldwide market. Market size determines the number of programs and companies that can be sustained on an economically viable basis. While in the past the self-sustaining and profitable level has been determined by the natural forces of free-enterprise competition, European government support of its industry has changed these rules. The treasuries and political influence of France, Germany, and Great Britain are shifting the industry equilibrium to European advantage, at the expense of U.S. interests.

What are the appropriate U.S. industry and government responses to this challenge? Clearly, it is industry's responsibility to maintain a strong competitive posture through improvements in technology and productivity. However, so long as the U.S. Government is disposed to ignore or only faintly protest the free trade violations by European state capitalism, erosion of the U.S. private aircraft industry will continue. The U.S. is better endowed with political and financial leverage than any of its European allies. In some areas and countries, it enjoys an overwhelming advantage. Yet, this leverage has not been employed. The trends described by this report indicate that a reexamination of current U.S. policies is appropriate and urgent. A four-point program is in order:

1. Subsidized Sales Financing

- Negotiate an international agreement:
 - Eliminate all export subsidies.
 - Limit government credit agencies to providing financial guarantees and political risk insurance.
 - Extend credit terms to the useful life of the product
- Provide access to all manufacturers (U.S. and non-U.S.) to commercial business sources of long-term financing to make financing a neutral element in aircraft selection.
- Maintain a strong Eximbank in the interim that will counter all foreign subsidized financing proposals and aggressively support export sales.
- Monitor compliance and support remedial action.

2. European Manufacturing Subsidies

- Apply diplomatic leverage to assure compliance with relevant international agreements.
- Initiate Congressional inquiries and Administration studies into foreign manufacturing subsidy practices.

3. European Political Leverage

- Strengthen surveillance and enforce "Agreement on Trade in Civil Aircraft".
- Use political leverage to counter European violations and take appropriate trade actions.

4. U.S. Government Impediments

- Clarify the Foreign Corrupt Practices Act.
- Revise the Administration's policy that uses exports as a tool of foreign policy.

T. A. Wilson, Boeing Chairman, put the problems in perspective in his February 8, 1982 message to the stockholders:

"... cutbacks in the lending and loan guarantee authority of the Export-Import Bank of the United States, combined with administrative policies which prevent effective use of the authority that is available, have put severe constraints on the ability of a number of foreign customers to buy U.S. aircraft.

"In contrast, the principal foreign manufacturer operates with the full support of its government owners and gains airline orders on the basis of more attractive financing and other economic and political considerations.

"Until an effective international agreement is reached which neutralizes the impact of foreign government-subsidized export financing, U.S. industry will be at a serious competitive disadvantage in both the U.S. and international markets."

It will take a joint effort from U.S. governmental agencies and the U.S. private aircraft industry to counter the competitive threat posed by foreign governments and their government-owned companies.

Senator HEINZ. And now, Mr. Lovett.

STATEMENT OF JAMES F. LOVETT, DIRECTOR, FEDERAL GOVERNMENT RELATIONS, WESTINGHOUSE ELECTRIC CORP., ACCOMPANIED BY GARABED K. ARMENIAN, DIRECTOR, GOVERNMENT FINANCE

Mr. LOVETT. I am James Lovett, director of Federal Government Relations for Westinghouse Electric Co. With me is Mr. Garabed Armenian, director of government finance for Westinghouse.

Mr. Chairman, if you agree, I'd like our statement included in the record and I will summarize.

Senator HEINZ. Without objection, the statement will be printed in its entirety. So ordered.

[The complete statement follows:]

PREPARED STATEMENT OF JAMES F. LOVETT, DIRECTOR, FEDERAL GOVERNMENT RELATIONS, WESTINGHOUSE ELECTRIC CORP.

Mr. Chairman, and members of the subcommittee, I am James F. Lovett, Director of Federal Government Relations, Westinghouse Electric Corporation.

Westinghouse manufactures hundreds of products which generate, transmit, control and utilize electricity. The most prominent of these are nuclear steam supply systems, large steam turbine generators, large power transformers, and large power circuit breakers. They are major products required by electric utilities to generate electricity and transmit it to population centers for use.

In addition to the products we make for sale to electric utilities, our company manufactures drives and controls for mass transit systems, elevators, electric motors and controls and hundreds of other products for industrial and commercial use.

I appreciate the opportunity to testify before your Subcommittee today.

On behalf of Westinghouse Electric Corporation, I want to urge the Congress and the Administration to provide the Export-Import Bank with adequate budgetary authority to make direct loans in whatever amount is necessary to permit American manufacturers to take advantage of export opportunities for the sale of their products. I would also like to urge that Eximbank operate pursuant to policies whereby the loans it makes are fully competitive with loans extended by foreign governments, or foreign government-supported loans to purchasers of their domestic manufacturers who compete in the world market with United States manufacturers.

There is much comment these days by economists to the effect that the United States is losing position in the world marketplace. There is also comment that we are witnessing the development of a worldwide, international industrial marketplace. The competition between nations to achieve and maintain an important position as suppliers in this international marketplace is already keen and is becoming more aggressive.

Other industrialized countries place great value on the export of industrial products. They assist their manufacturers in many ways by their government industrial policies. One powerful form of such assistance is export financing.

Our company believes American industry should receive support from our Government in those respects where only government support can permit us to compete in today's world marketplace.

Westinghouse and other American manufacturers of large electrical equipment, and of many other types of industrial equipment, need the support of the Export-Import Bank in order to maintain and expand our volume of production and export of our products. This need is especially great for the so-called "big ticket" items such as electric power plants.

Representatives of Westinghouse have previously presented our corporate story regarding the need for export financing to Congressional Committees, including this Committee and some of our testimony is necessarily repetitious because the story is still the same.

The manufacturing facilities needed to produce large electrical equipment are large and very expensive.

Fully as important, if not more so than these physical facilities, are the large numbers of specialized engineers and highly skilled, experienced production workers.

A flow of orders is necessary to maintain these skilled people as a ready team, and to have available the very expensive manufacturing facilities when they are needed to produce the large equipment required by electric utilities in the United States and other countries.

Prior to 1973, electric energy consumption in the United States was growing at 7 or 8 percent each year. Electricity use was also growing in other areas of the world, notably in the underdeveloped countries which are industrializing and improving their standards of living. After the OPEC oil boycott, the growth of electrical use was curtailed sharply as a result of slowdown in industrial expansion, conservation, and recently because of extremely high interest rates. New orders from American utilities for large electrical equipment have fallen off sharply, and many previously existing orders were cancelled or their delivery was postponed.

As the volume of orders has fallen in the United States, foreign orders were and are available for American producers, but only from the developing nations. We have to say only from developing countries, because Japan and European countries which are capable of making the large equipment I am talking about have long had rigid policies and practices which effectively boycott the purchase of American-made electrical equipment.

As Westinghouse and other American manufacturers confront a much reduced market for large electrical equipment in the United States, mentioned earlier, we encounter competition in the U.S.A. from Europe and Japan, at prices which are often unbelievably low. This competition, except for a modest import duty and a small Buy-American Act differential for Government purchases, is not restricted. We are practically shut out of the markets of Europe and Japan, and when we endeavor to sell to third world countries, we encounter foreign competition which is usually supported by subsidized export financing. We have found that under the Administration's budget and lending policies our prospective foreign customers were not able to obtain financing from the Export-Import Bank which was fully competitive with financing available from other governments.

Many of our high technology products or so-called "big ticket" items, are made to customer specifications. They involve large outlays of money and require long-term financing which must be committed before a contract is signed. Most potential overseas purchasers of equipment of this nature cannot pay for it without long-term loans, in sizeable amounts, at the lowest interest rates they can find. During the past year or so, as interest rates have soared, Eximbank has found it difficult to lend at rates which are competitive with foreign subsidized rates. As the Administration's policies of inflation control bring interest rates down, we hope Eximbank will probably bring its lending rates down.

The developing countries are today's main potential markets for our large equipment export business. Westinghouse is anxious and able to compete in those markets with other manufacturers of products like ours. When the competition is limited to price, delivery and quality, we will be successful. But when competition includes factors over which we have no control, that is export financing, our ability to compete is greatly diminished.

Westinghouse has no fear of being able to hold its own in free and fair competition with Japanese and European manufacturers, but such competition does not exist. We have the resources to compete with the resources of foreign industrial competitors, but not with the resources of foreign governments.

Confronted with the financing practices of the governments of Japan and Europe, American exporters are having to compete in a war they alone can't win.

Under the auspices of the Organization for Economic Cooperation and Development, as you know, agreement has been reached by member nations, bringing government-supported export financing closer into line with prevailing commercial money rates. We applaud our Government's efforts in achieving this agreement.

Following the conclusion of the new international arrangement, the Export-Import Bank revised its unitary lending rate of 12 percent per annum (p.a.) and announced a set of three interest rates relative to the three country categories identified by the International Consensus. The Export-Import Bank now agrees to lend at 12.4 percent p.a. to the relatively rich countries; this rate is equal to the arrangement minimum for this category. On the other hand, the Export-Import Bank's rate for the intermediate countries, remains at 12 percent p.a. against an arrangement minimum of 11.35 percent p.a. for that category. To the poorest countries, the Export-Import Bank's rate is 11 percent p.a. against a 10 percent p.a. arrangement minimum. The Bank also charges a 2 percent credit application fee which now can be financed over three years.

I must add that Japan is currently allowed to lend at an interest rate which is 30 basis points over Japan's commercial long-term prime rate. This allows Japan to

lend at 8.7 percent p.a. plus fees. Against this special accommodation, the Bank has also negotiated an understanding with the Japanese Ministry of Finance allowing U.S. Bidders to raise yen financing in the Japanese capital market against the guarantee of the Export-Import Bank.

While it is still very early to assess the impact of these new rates and the yen arrangement on U.S. exports, we are nonetheless concerned that the Export-Import Bank is still unwilling to adopt the arrangement minimums particularly in the intermediate countries which now include the major borrowers of the Bank. We believe the Bank should be further encouraged by the Congress to make its rates more competitive and in tune with the international arrangement.

When an interest subsidy is needed in order for some Eximbank loans to be competitive with foreign financing, the loans can nonetheless be beneficial to the United States. Federal income taxes alone, paid by American companies and American workers which manufacture the export products, can, and do in many cases, exceed the interest subsidy. In addition, there are distinct economic benefits from the employment of 2,400 or more people a year from each \$100 million of exports, supported by Eximbank financing. This employment provides economic benefit for localities where the plants are located, provides a base for state and local taxes, and eliminates the need for the people who are employed to receive unemployment compensation or other public assistance.

There are misconceptions that Eximbank lending is a government handout for the benefit of large companies in the United States. Large, complex products such as nuclear power plants, steam turbine-electric generators, equipment for large pumping stations, large earth-moving equipment, commercial airplanes and other high technology products are furnished by large companies because of the large and expensive manufacturing facilities necessary. However, components, parts, and services are supplied by many smaller, specialized concerns. For example, a nuclear plant designed and manufactured for export by Westinghouse is participated in by more than 1,000 suppliers.

We believe that \$1 billion of exports with, say, Export-Import Bank direct loans of \$650 million, create at least 24,000 man-years of employment in the United States—the Department of Commerce has estimated up to 30,800 man-years. In addition, there is the economic multiplier effect generated when each worker spends his income for food, housing, clothing, transportation, insurance, recreation, and so on.

The Wharton EFA recently did a study of the economic impact of a proposed Export-Import Bank loan to support the sale of mass transit equipment to Argentina. The study concluded that such a loan would result in a nine-to-one benefit to the United States. The study confirms my belief that Eximbank loans—even when subsidized with interest rates below the Bank's borrowing cost—can be good business for the United States. I am providing copies of the Wharton study for the record.

I would now like to offer a few comments on S. 2600.

We believe it is most important to extend Eximbank's charter for five years and to increase the total value of loans it can have outstanding by at least \$30 billion over the present authorized ceiling.

We recommend that in extending the Bank's life, this Committee and the Congress emphasize in the legislative history the Congressional intention and support for Eximbank to be fully competitive at all times. To this end, it should structure each loan to meet fully the interest rates, coverage, and payment terms offered by a foreign government agency or foreign government assisted loans for each transaction. In so doing, Eximbank should take into account any foreign aid or concessionary lending which is mixed with other export credits when Exim is identifying what constitutes competitive lending. Eximbank should continue its well-established practice of making only loans which are deemed to have reasonable assurance of repayment and it should publicize a continuing policy of making competitive loans to support U.S. exports.

We think it would be highly desirable to eliminate political considerations from the Bank's lending policies as fully as possible. To this end, Senator Heinz's proposal to extend the terms of the Bank's directors and to stagger the expiration dates should be most helpful. We endorse this approach.

We also urge the approval of a "war chest fund" or other device to provide Exim with adequate annual direct loan authority for meeting all legitimate U.S. exporter needs with competitive loans.

Removing Eximbank from the budget would ease much of the apprehension which now exists among U.S. exporting companies. In so doing, Congress would not have to forego its oversight responsibility which could be exercised by the Appropriations Committees as well as the Banking Committees.

I further hope the Congress will take a new, favorable look at the amount of loans Eximbank can make each year, and can persuade the Administration to increase Exim's lending authority.

BUDD CO. AND WESTINGHOUSE ELECTRIC CORP., BUENOS AIRES SUBWAY CAR CONTRACT—NET IMPACT ON THE GOVERNMENT OF EXPORT-IMPORT BANK FINANCING

(Prepared for the Budd Co. and the Westinghouse Electric Corp., by Wharton EFA, Inc.)

EXECUTIVE SUMMARY

Wharton Econometric Forecasting Associates conducted a study for the Budd Company and Westinghouse Electric Corporation to determine the economic benefits to the nation of one exemplary project submitted for financing by the Export-Import Bank of the United States. The study used the Wharton Annual and Industry Forecasting Model to estimate the effects on government receipts and expenditures that would result from the export sale of subway cars and related equipment for the Buenos Aires subway. The results show how these export sales—supported by Exim Bank financing—are translated into increases in domestic production, employment, income and government receipts.

For purposes of comparison, all outlays have been discounted back to millions of 1981 dollars using the three to five year government bond rate as the discount factor. The discount factor was selected after consultation with the Exim Bank.

The study demonstrates that production of transportation equipment for this project increases employment and taxable income for businesses and individuals and reduces unemployment and its associated costs. The result of these increases in revenues and reductions in outlays over the 1981-1991 period for the project shows a net gain to the U.S. government of \$762.4 million. State and local government revenues would increase by \$186.6 million during the same period.

Approximately half of the gain is due to increases in tax revenues government would collect as a result of new economic activity. The rest of the gain results from reductions in the amount government would have to pay for unemployment compensation, welfare and social security. The net gain figure accounts for the cost to the United States government in making up the difference between the higher interest rate at which the Exim Bank borrows and the lower rates at which it must loan to meet foreign competition.

METHODOLOGY

To evaluate the net impact on the Government of the Buenos Aires subway car contract financed by the Export-Import Bank, it was necessary to perform the following analyses: (1) to determine the economic impacts of the subway car contract on the government by simulating the Wharton Annual and Industry Forecasting Model; (2) to determine the net borrowing cost incurred by Export-Import Bank by computing the difference between the interest paid by the Export-Import Bank and the interest received by them from the loan; and (3) to compute the net impact on the Government of the loan by discounting to 1981 dollars the changes in federal and state and local governments surplus and subtracting the net borrowing cost of the Export-Import Bank loan discounted to 1981 dollars.

Wharton EFA received data from the Budd and Westinghouse companies on their estimates of their annual sales in 1980 dollars as well as their pre-production employment under the Buenos Aires contract. This information formed the basis for a macroeconomic model simulation. Prior to running the simulation this data was adjusted for inflation by the appropriate Wharton Model price deflator based in 1980 dollars and then deflated to 1972 dollars for consistency with the model.

Then it was necessary to evaluate the Export-Import Loan options for the Buenos Aires subway car contract. Westinghouse Corporation provided us with information as to the interest rate and repayment schedule under two Export-Import Bank financing options: 24 semi-annual repayments at a ten percent annual interest rate and 17 semi-annual repayments at a nine percent annual interest rate. These options both provide for a four year grace period after each loan drawdown in which only interest is paid as well as a commitment fee of one-half percent per annum on the unborrowed balance of the loan. On the basis of the drawdown schedule provided by the Westinghouse Corporation, we adjusted the annual drawdown by the Wharton Model price deflators which were also used to adjust the sales schedule for the model simulation. The revised drawdown schedule was then amortized according to the schedules we were provided.

To determine the borrowing cost of the Export-Import Bank, it was assumed that the bank would borrow at the 3-5 year government bond rate at the time of each drawdown.¹ This removed the complexity of analyzing the actual Export-Import Bank borrowing process. Our assumption provides a 'worst case' outlook in which they must borrow at the time of the drawdown and refinance each drawdown every five years until it is fully amortized.² From the resulting interest cost of borrowing, the total interest payments received from the loan were subtracted to obtain the net borrowing cost to the Export-Import Bank.

Finally, the change in the federal and state and local government surpluses of deficits and the net borrowing cost to the Export-Import Bank were discounted to 1981 dollars by using the Wharton Model forecast of the 3-5 year government bond rate used in the calculation of the Export-Import Bank borrowing cost.

The net interest cost to the Export-Import Bank of the subway car and related equipment sale depends on the type of loan program employed. If a program of a 9 percent rate with 17 semi-annual repayments is adopted, the net interest cost to the Export-Import Bank is 85.7 million 1981 dollars yielding a net gain to the U.S. government of 762.4 million 1981 dollars. Utilizing the program with a 10 percent rate and 24 semi-annual repayments produces a net interest cost to the Export-Import Bank of 24.6 million 1981 dollars which implies that the U.S. government will obtain a net gain of 823.5 million 1981 dollars.

The following table summarizes the benefits, costs, and net gains to the U.S. government over the entire loan program period and over the 1981-84 period.

SUMMARY OF BENEFITS, COSTS, AND NET GAINS TO UNITED STATES AND STATE PLUS LOCAL GOVERNMENTS

[In millions of 1981 dollars]

	Entire loan period	1981 to 1984
Net increase in U.S. Government receipts minus outlays.....	848.1	228.9
Net interest cost to Export-Import Bank (9-percent loan)	85.7	23.7
Net gain to U.S. Government with 9-percent loan	762.4	205.2
Net interest cost to Export-Import Bank (10-percent loan)	24.6	13.1
Net gain to U.S. Government with 10-percent loan	823.5	192.1
Net increase in State plus local government receipts minus outlays	186.6	52.8
Addendum		
Ratio of net increase in U.S. Government receipts minus outlays to net interest cost to Export-Import Bank:		
9-percent loan.....	9.9	9.7
10-percent loan.....	34.5	17.5

The large net gains to the U.S. government generated by the production of the subway cars can be explained in part by accounting for the 'ripple' effects on the economy which magnify the initial production expenditures. Based on expenditure information supplied by Budd and Westinghouse and adjusted by the appropriate Wharton model price deflators, a total of 732.0 million 1972 dollars of production will be sold by the Budd and Westinghouse companies over the year 1981 through 1991. Over this same period, these expenditures will result in a Gross National Product increase of 1.6 billion 1972 dollars and the creation of 75,400 man-years of new production. The rise in GNP implies an increase in overall economic activity of 2.2 times the initial Budd and Westinghouse expenditures. The nominal dollar increase in GNP (adjusted for inflation) is 2.5 billion dollars over 1981 through 1991. Of this, the U.S. government receives 32.5 percent via increases in tax revenues alone over the same period while state plus local governments receive 3.1 percent via increased tax revenues.

¹ Choice of the 3-5 year U.S. government bond rate was based on discussions with staff members at the Export-Import Bank.

² The Eximbank Borrowing Schedule is assumed to follow the drawdown and repayment schedule of the Buenos Aires Subway car loan.

PRESENTATION OF YEARLY RESULTS

Table I presents yearly values for the benefits, costs and net gains to the U.S. government of the Export-Import Bank's support of the Budd and Westinghouse sale of subway cars and related equipment (hereafter subway cars) to Buenos Aires. All dollar figures are stated in millions of 1981 dollars. The Wharton Annual Model was used to estimate the influence of the production and sale of subway cars on the U.S. economy and on government receipts and outlays over the period 1981 to 1991. Beyond 1991, all remaining transactions involve loan repayments and would have negligible (if any) effect on U.S. economic activity.

The negative net interest cost to the Export-Import Bank of both the ten percent and nine percent loans during the 1990's and beyond results from the 3-5 year government bond rate declining below the lending rate. The net interest cost to the Export-Import Bank remains positive even after the current year borrowing rate drops below the ending rate because we have assumed that the Export-Import Bank commits to pay the 3-5 year government bond rate prevailing in the year that a drawdown occurs for five full years. This assumption probably results in an overstatement of net interest cost to the Export-Import Bank.¹ As can easily be seen from the year-by-year net gains to the U.S. government, the favorable results to the U.S. government is not dependent on the borrowing cost to the Export-Import Bank falling below the lending rate. The U.S. government enjoys a net gain in 1981 under the nine percent loan program even though the 3-5 year government bond rate is 13.3 percent.

¹ The small negative net interest cost to the Export-Import Bank in 1981 under the ten percent program results from the 0.5 percent fee on the unborrowed balance.

TABLE 1
BUDGETARY ALLOCATIONS FOR THE FISCAL YEAR
1981-1982 TO THE FEDERAL GOVERNMENT
SUMMARY OF RESULTS

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Change in Federal Gov't Services or Welfare																														
Recurrent Present Value in Millions	3.9	21.6	38.8	122.6	127.6	127.7	119.6	93.6	65.5	49.5	34.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in State and Local Gov't Surplus or Deficit																														
Recurrent Present Value in Millions	1.3	4.9	18.0	18.6	38.6	37.8	31.0	22.4	12.3	3.5	-0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing Cost to the Gov't - Net Lending Rate																														
Recurrent Present Value in Millions	1.8	4.7	6.4	10.6	12.0	13.1	13.0	12.0	9.4	3.0	3.1	-0.6	-1.3	-1.7	-1.6	-1.1	-0.8	-0.9	-0.7	-0.7	-0.1	0.0	0.0	-	-	-	-	-	-	-
Borrowing Cost to the Gov't - Net Lending Rate																														
Recurrent Present Value in Millions	-0.1	2.5	3.8	7.1	8.9	9.6	8.6	6.6	3.3	1.9	-2.0	-4.1	-4.9	-4.7	-4.0	-3.2	-2.3	-1.3	-1.1	-0.7	-0.6	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest on Federal Gov't - Net Lending Rate																														
Recurrent Present Value in Millions	6.1	14.0	20.2	112.0	114.0	109.6	81.0	56.4	46.1	32.7	0.6	1.5	1.7	1.6	1.1	0.0	0.3	0.2	0.1	0.0	0.0	-	-	-	-	-	-	-	-	-
Net Interest on Federal Gov't - Net Lending Rate																														
Recurrent Present Value in Millions	0.0	15.3	23.0	115.3	116.7	110.0	83.2	60.3	40.0	36.0	0.1	0.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recurrent Present Value in Millions	1.00	1.12	1.27	1.46	1.52	1.61	2.03	2.23	2.44	2.66	2.80	2.11	2.30	2.43	2.49	2.46	2.41	2.38	2.35	2.32	2.29	2.26	2.23	2.20	2.17	2.14	2.11	2.08	2.05	2.02
3-5 Year Government Bond Rate	13.3	13.3	13.1	13.2	12.6	12.1	12.0	10.0	9.3	8.3	8.2	8.1	8.1	8.0	7.9	7.8	7.7	7.6	7.5	7.4	7.3	7.2	7.1	7.0	6.9	6.8	6.7	6.6	6.5	6.4
Percentage																														

Notes: The above table reflects the government bond rates for 1981-1982, the 3 percent beginning in 1983, the 5 percent, and funds borrowed or returned by the government bond after 1989 will be below the 3 percent ceiling.

Table II presents the major economic impacts of the subway car project on an annual basis over the period 1981-1991. The direct real 1972 dollar outlays by Budd and Westinghouse result in an ultimate increase to total real Gross National Product which, on average, is 2.2 times the amount of the direct outlay. This multiplier effect results from the chain of transactions which follow in the wake of the initial outlay. A multiplier value slightly in excess of two on average is similar to the size of the multiplier associated with increased military expenditures on hardware or increases in producers durable equipment purchases.

The decreases in state plus local government tax revenues during the last three years of the simulation (and the decline in their surplus during 1991) occur because of the procedure used to calculate tax receipts for state and local governments in the Wharton Annual and Industry Forecasting Model. Effective state plus local government tax rates are adjusted (calculated) in the model so as to move these government units towards a balanced budget position over time. These government units, unlike the federal government, typically cannot run large deficits for a period of years nor are they likely to run large surpluses. Therefore, after the upsurge in revenues during the early years, effective rates are adjusted downward to bring receipts and expenditures back toward equality.

TABLE II
BUREAU AIRBUS SUBWAY CAR CONTRACT
ECONOMIC IMPACTS

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	TOTAL
Bull and Westinghouse Subway Car Expenditures (billions 1972 dollars)	6.2	19.3	65.0	103.0	103.3	103.5	103.4	84.4	56.4	44.9	36.2	732.0
Change in Gross National Product (billions 1972 dollars)	7.6	30.9	123.9	210.2	230.3	241.9	236.3	192.3	134.4	99.3	67.1	1574.6
Ratio of Change in GNP to Subway Car Expenditures (line 2/line 1)	1.2	1.6	1.9	2.0	2.2	2.3	2.2	2.3	2.4	2.2	1.8	2.2
Change in Gross National Product (billions annual dollars)	18.4	88.9	244.2	395.3	417.0	444.4	427.7	301.7	152.0	72.7	-11.0	2531.7
Change in Federal Gov't Surplus or Deficit (billions annual dollars)	6.0	26.5	100.1	174.3	206.1	231.4	242.3	210.8	161.6	122.8	100.2	1592.3
Change in Federal Gov't Revenues (billions annual dollars)	4.9	19.5	72.7	115.6	122.5	133.7	130.4	97.2	60.6	43.4	27.2	822.9
Change in State and Local Gov't Surplus or Deficit (billions annual dollars)	1.5	5.6	22.8	40.8	40.4	39.5	42.9	50.4	30.3	14.6	-2.4	335.4
Change in State and Local Gov't Revenues (billions annual dollars)	1.9	5.1	14.6	24.0	28.1	33.1	28.3	10.9	-8.7	-23.6	-34.9	74.8
Change in Total Employment (new years)	260	1,480	4,400	8,330	10,590	11,400	11,430	10,130	7,400	5,380	3,300	75,400

Mr. LOVETT. That concludes our statement, Mr. Chairman.
 Senator HEINZ. Mr. Lovett, thank you very much. Mr. Durka.

STATEMENT OF WILLIAM J. DURKA, MANAGER OF INTERNATIONAL TRADE POLICY OPERATION, GENERAL ELECTRIC, NEW YORK

Mr. DURKA. My name is William J. Durka and I appear on behalf of the General Electric Co. I am manager of the company's International Trade Policy Operation. We appreciate the subcommittee's invitation to participate in these oversight hearings on the Export-Import Bank.

[The statement follows:]

PREPARED STATEMENT OF WILLIAM J. DURKA, MANAGER, INTERNATIONAL TRADE POLICY OPERATION, GENERAL ELECTRIC CO.

My name is William J. Durka and I appear on behalf of the General Electric Company. I am the Manager of the Company's International Trade Policy Operation. We appreciate the Subcommittee's invitation to participate in these oversight hearings on the Export-Import Bank.

As we are all aware, the Congress along with the Executive Branch, the U.S. export community, and a variety of interested bystanders have, for quite some time now, been engaged in an extensive dialogue on the Eximbank: On why we have it, on what it costs, on how it should be related to the Federal Budget, and so on.

During this dialogue, three things have happened:

First, a greater understanding and appreciation of the vital need for the Bank have developed. The prevailing judgment among informed persons is that the Bank is a necessary defense mechanism to enable U.S. exporters to compete against tough foreign competitors supported by their governments with concessionary export financing assistance. Last winter the AFL-CIO Executive Council recognized the need for the Bank in view of the domestic employment impact of foreign subsidized competition to U.S. exports. The National Governors International Trade and Foreign Relations Committee is supporting additional and adequate authority for the Bank for Fiscal 1983. And it appears to us that there exists a broad level of support for the Bank in both Houses of Congress.

Second, surveys indicate that the inability of U.S. exporters to obtain competitive export financing has caused the U.S. to lose a significant amount of export business to foreign competitors—with, of course, a concomitant loss of a large number of U.S. jobs. These losses in exports and jobs will of course continue into the future and will get worse if the Eximbank's direct lending authorization level is inadequate.

Thirdly, the basic issue that has emerged is the strong—but mistaken—belief of some that we have to cut back on the Bank's operating authority because of its impact on the Federal Budget. In other words, the question some people ask is: How big a Bank can we afford?

We all have learned many times over how important it is to ask the right question. And it turns out we have not been asking the right question about the Eximbank.

The need to reduce the federal budget deficits is one of our greatest imperatives. But too many of us have been thinking that the Eximbank adds to the deficits so that the more authority we give the Bank, the more its operations will add to the deficits.

We should now, at long last, recognize the fallacy of that view.

The Bank, by increasing U.S. exports, and by thereby increasing jobs and resulting taxes, adds to U.S. government revenues and thereby reduces federal deficits.

The reason we have been thinking that the Bank adds to federal deficits is that, currently, we include in the Federal Budget the predicted annual net cash flow of the Bank. This net outlay figure for the Bank has been increasing as the Bank's operations in recent years have increased. This figure was \$2.1 billion in fiscal year 1981 and \$1.8 billion in fiscal year 1980. Naturally, if this figure truly deserves to be counted in calculating the federal deficit, it would give us all great pause.

But as Senator Heinz and the other Senators who introduced S. 2600 are telling us, the Bank's net cash flow has no business being included as a federal deficit item. The essential fallacy is that Bank loans—which are repaid and are assets—are treated as though they were federal grants or giveaways.

Senator Heinz, in his statement to the Senate last May 27 when, for himself and other Senators, he introduced S. 2600, gave a clear and detailed explanation of the fallacy of including the Bank in the budget and why, in fact, doing so created serious problems for the Bank. Rather than repeating that analysis, I respectfully suggest that those who are not already familiar with that statement give it close study.

We therefore support the proposal is S. 2600 to remove the net lending outlays of the Bank from the Federal Budget.

My Company has a long record of advocating that Congress maintain adequate accountability and cost/benefit controls over all federal governmental activities. Ordinarily, such controls include the discipline of inclusion of the cost of the governmental activity in the Federal Budget. But the fact that the nature of the Eximbank's operations make it inappropriate to include the Bank's operations in the Federal budget does not mean that Congress should lessen its oversight and control over the Bank or in any way lessen the Bank's accountability. As Senator Heinz pointed out in his May 27 statement, the Bank will remain under close Congressional supervision. Let me quote from his statement:

"Removing Eximbank net outlays from the Federal budget would not result in insufficient oversight power of the Bank's activities. There remain several important points of oversight access:

"Congress would still have to act periodically to renew authority for the Bank to exist.

"Pursuant to the Government Corporation Control Act, the President would still transmit to the Congress each year—via OMB—the Eximbank budget for program activities and administrative expenses, which would then go through the authorization-appropriation process. This would include total annual limits for Eximbank programs and the ceiling for total outstanding loans. In other words, the Bank would still be on-budget as far as Congress credit budget is concerned. But, it would be off-budget for OMB's expenditure accounting purposes; that is, for expenditure surpluses and deficits.

"All proposed Eximbank participation in nuclear projects would still have to be submitted to the Congress for review, as well as all projects of more than \$100 million in value.

"Eximbank loans of more than \$10 million in value would still have to be approved by the National Advisory Council.

"The Bank's borrowings from the Treasury would still be subject to approval by the debt management section at Treasury as to amount, interest rates, and the timing of the issues.

"Eximbank borrowings through the Treasury and the Federal Financing Bank would still be subject to the statutory debt limit."

However, it may not be feasible to expect that the Bank will be removed from the Budget any time soon. What, then, should be our policy towards the Bank? In other words, how should we live with the anomaly that the Bank's predicted annual net outlays are included in the Federal Budget and therefore do, in fact, even though improperly, add to the federal deficit?

Here is where we need an understanding of the difference between Exim lending authority levels and Exim budgetary impacts.

What happens under the current procedure is that the Congress determines, for each fiscal year, the total dollar amount of direct customer loans the Bank can authorize, and the total dollar amount of guarantees and insurance it can agree to. Those figures constitute the operating authorization levels for the Bank for that fiscal year. Then, so far as the federal budget for that fiscal year is concerned, an estimate is made as to the Bank's net cash flow for the year.

The net cash flow is the difference, positive or negative, between the Bank's estimated revenues (i.e., all the money that comes in from repayments of previous customer loans, interest on previous customer loans, receipts of customer loan commitment fees and insurance premiums, and claim recoveries) and the Bank's estimated disbursements (i.e., all the money that goes out for actual disbursements on customer loan commitments, actual claims paid on guarantees and insurance, interest paid on Exim borrowings, and administrative expenses).

There has been a popular misconception that if you take away a billion dollars from the Bank's lending authority, you cut Federal expenditures by a billion dollars. This is not the case at all because, first, the Bank does not spend taxpayer money. And, second, the figure on the Bank that is in the budget—the net cash outlay—is affected to only a small extent by a cut in the Bank's lending authority in a given year.

For example, the Administration is proposing that the Bank's loan authority for fiscal year 1983 be cut by \$570 million (i.e., from the \$4.4 billion lending authoriza-

tion the Bank had for fiscal year 1982 to \$3.83 billion for fiscal year 1983). That cut could support close to a billion dollars in exports. But that large program authority cut will reduce the figure in the fiscal year 1983 budget for the Bank by only 8 to 10 percent of the lending authority cut, or roughly \$50 million. Most of the impact on the Bank's net outlays of a cut in its lending authority comes in later years. And, as I have already explained, even the cut in net outlays will not really reduce Federal expenditures.

In sum, a one dollar cut in the Bank's lending authority for a particular fiscal year results in only a 8-to-10-cent cut in the federal budget for that fiscal year. And, as we all now know, the budget cut is not a real cut because the Bank is not spending taxpayer money. And this process ignores the fact that each year the Bank is obligated to disburse loans committed to in prior years.

Though Eximbank loans do not use taxpayer money, critics charge the Bank does create taxpayer costs by its borrowings in the U.S. capital markets. The alleged costs are: (1) the difference between the Exim cost of its borrowings and the interest rate it charges when it loans that money; and (2) the push that Exim borrowings give to drive up interest rates generally, so that all U.S. Government borrowings are at a higher rate.

In the past, Exim was able to borrow funds more cheaply than the rates at which it loaned them; this is no longer true. Currently, the Bank is charging between 11 percent and 12.4 percent, depending on the wealth of the customer country, plus a one-time 2 percent fee, which can be paid over 3 years. The Bank's most recent borrowings of funds in the U.S. capital markets (through the Federal Financing Bank) were \$1 billion on June 1, 1982 at 13.6 percent and \$613 million on September 1 at 12.7 percent. But this "cost" is still more than offset by the increased tax revenues and reduced unemployment costs resulting from the additional exports Exim makes possible. For example, a 1981 study by Wharton Econometrics Forecasting Associates, Inc. of a Westinghouse export of subway system equipment to Argentina indicated that the U.S. Government could expect to gain more than \$9 for every dollar of Exim interest subsidy because of increased tax revenues and reduction in unemployment costs.

The overall "push" impact of Exim borrowings on U.S. capital markets is minimal. The bank's net borrowings were about \$1.9 billion in 1980 and \$2 billion in 1981. These figures indicate that the cost-impact of the Bank on our gigantic credit markets is insignificant.

I now turn to implications of the foregoing.

First, I have already referred to the exports and jobs we are losing—and will continue to lose—because of reduced Eximbank competitiveness. The Bank's operations increase exports and jobs. They therefore increase taxes. Hence they actually increase federal revenues. If the Bank's operations are cut, the resulting loss of exports and jobs will serve, in fact, to reduce federal revenues.

Second, primarily because of the world-wide recession, the Bank will apparently not use all of the lending authority it has for Fiscal 1982. This temporary situation, however, is not a reason to restrict the Bank in the future. In fact, as the recession recedes, a surge in demand for the Bank's assistance can be expected. But beyond that, when the Bank's Charter is considered for revision and extension, there remains the need to clarify the relationship between the Bank's obligation to be competitive and its obligation to be prudent in its operations. What is needed is an appropriate statutory clarification of the Bank's mandate so that its long-term responsibility to be competitive in world markets is not subverted by short-term profitability concerns as defined in terms of accounting principles applicable to commercial banks.

Incidentally, the Eximbank is to be commended for its creativity in arranging to make its guarantee authority available to Japanese banks, to encourage the latter to make loans in yen at relatively low Japanese market rates to foreign customers of U.S. exporters.

Third, there is the matter of the so-called "Gentlemen's Agreement", the OECD arrangement that seeks to impose an international discipline on concessionary governmental export credits. The amendments to the Arrangement that became effective last July 5 were a significant improvement but we expect derogations and evasions to continue. A strong Exim is the only U.S. lever to pressure foreign governments to moderate their predatory financing practices. The other major foreign trading countries—especially France, apparently—fully intend to continue aggressive use of concessionary export financing. It increasingly appears that the only way to put the financing of exports on a sound economic basis is to permit the Export-Import Bank to compete so effectively that it convinces our foreign competitors that they have nothing to gain by unsound financing practices.

In the final analysis, the Eximbank should be considered by the Congress in the context of an overall awareness of what is happening to the world trading system. Broadly speaking, all major trading countries are continuing to express support for open, competitive multilateral trade.

But in these countries—including the United States—inflation, unemployment, and high interest rates are creating strong protectionist pressures. We all know the disastrous consequences that would follow if the major economies of the world sought to deny their interdependence and each tried to insulate itself from the others.

The United States remains the economic—as well as the military—leader of the Free World. Ours is the responsibility to use every economic lever properly open to us to protect the rules and disciplines of competition and free trade that over the years have laboriously been established for the world trading system. It is very much to our best interest—and to the best interest of our trading partners—that we do so.

Our foreign trading partners have seen government concessionary export credits as an expedient method they can use to take advantage of us and each other. It is a costly practice for them but one that they think is cost effective. We have to respond in ways that will be effective enough to induce them to be more responsible from a long-range and overall point of view. This means that, at the same time we do the various other things required to protect as much as possible the open multilateral trading system, we maintain a strong Eximbank.

Mr. DURKA. Thank you.

Senator HEINZ. Mr. Durka, thank you very much.

Mr. Doubet.

STATEMENT OF EARL W. DOUBET, PRESIDENT, CATERPILLAR AMERICAS CO., PEORIA, ILL.

Mr. DOUBET. Mr. Chairman and members of the subcommittee, my name is Earl W. Doubet and I am president of Caterpillar Americas Co., the subsidiary of Caterpillar Tractor Co. that covers the Western Hemisphere outside the United States. Accompanying me today is Jim Leonard who is international finance manager.

Caterpillar Tractor Co. designs, manufactures and markets earthmoving, construction, and materials-handling machinery and equipment, and engines. Caterpillar is the country's fifth largest exporter and has been fortunate to enjoy a significant measure of worldwide success. For most of the past decade, our overseas business has equaled or exceeded our U.S. business. Last year, 57 percent of our sales were outside the United States. Some of those sales were of products manufactured abroad, but most came from the United States. In fact, nearly half of Caterpillar's total U.S. production in 1981 was exported, amounting to \$3½ billion in U.S. exports. We estimate that some 31,000 of Caterpillar's—

Senator HEINZ. Mr. Doubet, excuse me. Let me interrupt you just a second. I'm going to absent myself for about a minute to make one urgent telephone call. I'm going to ask Paul Freedenberg, our staff director of the subcommittee, to fill my obligation as Chairman by sitting in for me while I make this call. I apologize. Please proceed.

Mr. DOUBET. We estimate that some 31,000 of Caterpillar's U.S. employees owed their jobs to exports last year. For each job at Caterpillar, it's estimated that two jobs are created with supplier firms which provide us with goods and services. So in all, Caterpillar exports in 1981 created approximately 93,000 jobs for Americans.

However, we need to do better. We believe that, annually, there are billions of dollars of additional sales opportunities that Cater-

pillar and other American businesses could and should be capturing. We're convinced that we could win more of that business under conditions of equal competition.

But in the international market, we're not competing on an equal basis and the distortions to our international trading system put the American exporter at a distinct disadvantage.

[The complete statement follows:]

PREPARED STATEMENT OF EARL W. DOUBET, PRESIDENT, CATERPILLAR AMERICAS CO.

Mr. Chairman and members of the Subcommittee: my name is Earl W. Doubet, and I am President of Caterpillar Americas Co., the subsidiary of Caterpillar Tractor Co. that covers the Western Hemisphere outside the United States. I am submitting testimony today, however, on behalf of Caterpillar Tractor Co.

BACKGROUND ON CATERPILLAR

Caterpillar is a manufacturer of earthmoving, construction, and materials handling machinery and equipment, and diesel and natural gas engines. Caterpillar is also the fifth largest exporter from the United States. Exports have long been important to Caterpillar, but seldom have they been as important as in 1981.

The company's sales in the United States last year were \$3.97 billion compared with \$3.69 billion in 1980, an increase of 7.8 percent. Sales outside the United States totaled \$5.18 billion . . . a 5.5 percent rise over the \$4.91 billion in 1980. More than 56 percent of Caterpillar's consolidated sales in 1981 were outside the United States. Caterpillar's U.S. exports totaled \$3.5 billion last year . . . representing nearly half—about 48 percent—of the company's sales from U.S. production.

These exports provided important benefits:

To the United States.—In the form of a \$3.3 billion net favorable contribution to the balance of payments. (For the years 1977–1981, the company's net contribution to the U.S. balance of payments totaled over \$12 billion.)

To Caterpillar's U.S. employees.—Average employment in 1981 was about 68,000, of whom approximately 31,000 owed their jobs to exports. During 1981, total U.S. employment increased, while export-based employment remained essentially the same.

To suppliers.—Caterpillar has thousands of U.S. suppliers—14,125 in 1981, to be exact. We estimate that each job at Caterpillar creates two additional jobs with supplier firms. Thus Caterpillar's 31,000 export-based jobs created an additional 62,000 jobs with other companies—for a total of 93,000 U.S. jobs dependent on Caterpillar exports.

It is sometimes said that Export-Import Bank programs are of benefit primarily to large companies. We believe Caterpillar's experience demonstrates this is not true. In 1981, Caterpillar bought goods and services worth about \$4 billion from its U.S. suppliers, many of them small businesses with 500 or fewer employees. Many—probably most—of these businesses do not export directly. But almost half (48 percent) of their 1981 sales to Caterpillar were made possible by Caterpillar's export business. And, of course, a substantial share of the 62,000 supplier jobs dependent on Caterpillar exports were with small businesses.

The geographical diversity of Caterpillar's U.S. suppliers is also impressive. Not surprisingly, the industrial states of the Middle West—such as Illinois, Wisconsin, Michigan, Ohio, Indiana—lead in both numbers of suppliers and value of purchases. But New England is well represented, even though most Caterpillar manufacturing plants are located far away. There are suppliers in virtually every southern state. And the Mountain and Pacific states are also well represented. In fact, Caterpillar suppliers are located in 48 different states.

All of this provides an indication of how broadly the benefits of just one company's exports are spread.

Caterpillar is proud of these figures. We believe they're firm evidence that an American company can compete successfully in international markets.

However, we need to do better. We believe that annually there are billions of dollars of additional sales opportunities that Caterpillar and other American businesses could and should be capturing. We're convinced that we could win more of that business under conditions of equal competition. But in the international market, we're *not* competing on an equal basis, and the distortions to our international trading system put the American exporter at a distinct disadvantage.

Governments of other countries are supporting financing arrangements so attractive that American companies are losing out. Government-supported financing of international sales has become a significant factor in determining who gets the business. In this regard, the General Accounting Office recently surveyed 117 exporters who had applied to Eximbank for financing support but were denied loans or did not use them. The survey shows these firms lost over \$2 billion worth of business to exporters from other nations with more competitive financing.

That is why it is crucial that American exporters have available a financing facility comparable to the facilities available to our foreign competitors.

When viewed superficially, the debate surrounding Eximbank appears to pose a kind of philosophical quandary for me, and for other business leaders. For years we've urged government to get out of our way, and let us compete. What we need is less government, not more . . . less government spending, less government regulation of the private sector, and less government intervention in the marketplace. Let me reaffirm those beliefs today.

American exporters are not looking for a free ride. We recognize and acknowledge that the United States cannot and should not adopt a policy that calls for subsidizing export credit over the longer term. We endorse and wholeheartedly support the goal of a multilateral agreement eliminating predatory export financing. However, we do not believe that a policy of unilateral export credit disarmament will achieve that goal. The United States will have little leverage in future international negotiations if Eximbank is regarded as an insignificant factor in the world marketplace.

Unfortunately, there are already many barriers to successfully competing in that marketplace. Overcoming some of them, namely quality, service, price and other commercial factors are well within our capabilities. Others, however, are beyond our control or are difficult to influence. Today's world recession and high interest rates have caused many commercial lending institutions to dramatically reduce their level of support, particularly in the less developed countries. In addition, many banks are reluctant to extend fixed rate financing which is vital today in order to effectively compete, especially in public buyer bid situations. Most importantly, however, American companies, regardless of size, don't have the financial resources necessary to compete against the substantial export credit subsidies from foreign governments. Those subsidies, along with a host of other export promotion tools, enable foreign companies to win exports and export-based jobs away from the United States.

It's in precisely this context that a strong and effective U.S. Export-Import Bank is essential . . . a competitive bank can help end the loss of export-based jobs to other countries. And an aggressive bank will encourage other countries to join the United States in a serious effort to control predatory export financing. Purchasing decisions in international trade must be based on commercial factors . . . and not on which government offers the biggest financing subsidy.

The United States recently concluded an agreement with other Organization for Economic Cooperation and Development (OECD) countries which moved interest rates closer to market levels. But I don't believe we've reached an effective and lasting solution.

Other countries have seen too many indications that the United States does not attach the same high priority to exporting that many of them do.

Other countries see export credit subsidies as creating foreign exchange earnings and jobs. So long as these gains appear to outweigh the costs involved, they're prepared to continue export credit subsidies, and resist an effective long-term international agreement. I believe it is incumbent upon us to alter the equation for them by fighting back every time another country offers a financing package aimed at displacing U.S. exports and jobs.

In theory, that's what Eximbank's policy of "selective competition" was intended to do. But Exim's authority and resources were so limited that the bank had to put more emphasis on selecting than it did on competing.

That situation must be changed. In the long term interest of achieving agreement on an end to predatory export financing, the United States needs to strengthen Eximbank . . . or other countries will have no real reason to continue to come to the negotiating table.

I'd also like to talk briefly about jobs. A recent survey of U.S. manufacturers by the Census Bureau shows that each billion dollars worth of exports supports more than 30,000 jobs. (Caterpillar's own experience, incidentally, bears out this estimate.) The key point is that since all Eximbank funding supports U.S. production, the bank has a sizable effect on American jobs.

U.S. unemployment has reached its highest level since the depression of the 1930s. At the end of August, Caterpillar had over 17,000 U.S. employees on indefinite layoff . . . the largest number of layoffs in our company's history.

In our view, one of the most important things government can do to help restore economic health is to encourage job-creating, wealth-producing activities like exporting. To the extent federal funding is involved in supporting Eximbank activities, it has a high payoff at a low cost.

It used to be the case that the United States could lock up international sales easily even without Eximbank support because of our technological edge. But that's no longer the case. Our foreign competitors have closed the gap in most areas where America once held technological superiority. Machinery and engines, steel mills, aircraft, nuclear and fossil-fueled power plants are no longer the private technological turf of American manufacturers.

Now we find ourselves offering essentially competitive products, but with the export financing factor working against us. If we fail to rise to the export credit challenge, American exporters will find themselves replaced as the customary suppliers in important markets. And once you're out of an export market, it is very hard to regain your former position . . . much harder than in the case of domestic markets.

Let me provide some specific examples of the role competitive export financing can play and has played in regard to products now available from various countries.

One of the clearest—and, from a U.S. perspective, worst—examples of the impact of competitive export financing is found in Caterpillar's own experience. In 1981 we were bidding for the sale of 17 machines to a potential customer in the Congo.

Customarily, we source products sold in the Congo out of Illinois, and that was our intention in this case. That is, until financing became a factor. The buyer was offered low fixed rate financing from our competition. The only avenue available to meet this competition was to offer similar terms available through the Brazilian export credit facility. Consequently we sourced this product from Brazil.

The impact: The buyer got his Caterpillar equipment; and we got the sale. But most of the jobs went to Brazil instead of to the United States . . . purely and simply because our Eximbank could not, or would not, meet the terms offered by our competitors.

Another example of product source diversion can be found in Columbia. In 1981, we diverted product traditionally sourced in our Illinois facilities to our Belgian and French facilities in order to meet the low fixed rate financing requirements of governmental agencies in Columbia. Unlike its counterpart in France and Belgium, Eximbank refused to meet the Colombian government's needs.

These examples illustrate why American exporters are so concerned about proposals that would cut the authorization level of Eximbank in fiscal year 1983 at a time when the availability of funds from the financing facilities of other nations appears to be growing.

I believe the United States has to put other nations on notice that we are going to match their export credit packages with competitive financing of our own. We need to show them that our Eximbank is going to actively promote American exporters by assuring them they will get the financing they need, rather than withdrawing from the contest.

America's capital resources are the largest in the world. We have the financial power and credibility our negotiators need to bring about more effective agreements on export loan interest rates and terms.

The place to start is with Eximbank's program authorization.

The realities of international competition would call for a substantial increase in the Eximbank authorization level. The realities of U.S. politics and fiscal policy, on the other hand, demand restraint. In the past, compromises have been achieved which preserved an appropriate balance between our commitment to a strong Eximbank and U.S. fiscal policy. We believe it is incumbent on policymakers, both in the Executive Branch and Congress, to recognize the positive economic benefits—including jobs creation—that flow from Eximbank, and accord it a higher priority in the budget setting process.

To complement adequate funding, other changes in Eximbank lending practices must also be made. The bank should have a broad range of programs that meet the needs of the diverse companies that make up America's export sector.

The Export-Import Bank has played an important role in facilitating Caterpillar's exports and we have used virtually all of its programs. In fact, Caterpillar has been unofficially credited with utilizing \$359.0 million in Exim funding last year. Much of that was in the form of insurance under the Foreign Credit Insurance Association (FCIA) program.

During the last five years, the sales area for which I am responsible has had a master policy with FCIA. This master policy provides short and medium term insurance coverage against catastrophic loss on export receivables for most Latin American countries. In 1981 alone, volume under Caterpillar Americas' master policy was over \$250 million. It has been an invaluable marketing tool for both Caterpillar and its dealers. Our ability to assign receivables covered by our insurance to financial institutions has permitted many Latin American dealers to obtain adequate U.S. bank lines, to finance in-country inventories, and short and medium-term sales to their customers. FCIA has offered a needed product, at an attractive price, which has contributed to our overall success as an exporter.

Our need for FCIA insurance is long term and continuing. Therefore, we believe it is important that the allocated amount for Eximbank commercial and political risk guarantees and insurance be maintained at least at fiscal year 1982 budget levels. This would provide a partial solution to the problem many regional and money center banks now face with respect to country risk.

The Discount Loan program which provides fixed-rate, medium-term credit is also important to our industry especially for sales to developing countries. In its original concept, it enabled the Eximbank to support a broad range of exports for which the Direct Loan program was not available.

However, that program has been cut back substantially in recent years. (It was as high as \$1.2 billion in fiscal year 1976.) Unfortunately, decisions have been made to further reduce the budget authorization allocated for the Discount Loan program and make it available primarily to smaller U.S. exporters. We believe Eximbank's management should reexamine its position concerning the medium-term Discount Loan program, and failing that, the contract value limitation on the Direct Loan program should be reduced from \$2.5 million to \$500,000, with repayment term minimums reduced from 5 years to 2 years.

Many of our products have also been exported as a result of financing provided under the Direct Loan program, although the program today has some serious drawbacks. Reduced authorizations in the past several years have resulted in limiting our access to it. The proposed reductions in Direct Loan authorization levels for fiscal year 1983 will probably mean an even further reduction in our ability to secure such financing for Caterpillar exports.

We believe, Direct Loan program restrictions with respect to minimum contract values, loan maturities and percentage of coverage need to be examined. Specifically, as I mentioned before, the contract value limitation on the program should be reduced to \$500,000, with coverage increased from the current 65 percent up to 85 percent with flexible repayment terms consistent with the OECD guidelines or accepted commercial practice. In addition, the loan approval process should be simplified. Less documentation should be required in order to provide a more timely response.

In sum, Mr. Chairman, I believe Congress must make it clear that the Eximbank is not to be a passive partner in the world of international finance. Next year you are charged with the responsibility of renewing Eximbank's charter. This Subcommittee will play a key role in that process. We urge you at that time to reaffirm the bank's mandate to be an aggressive promoter of U.S. exports. We need an aggressive Eximbank to encourage the vigorous growth of American exports and, in the process, to put many Americans back to work.

A strong U.S. commitment to Eximbank would signal the rest of the world that we are serious about exporting and export financing competition, and that we don't intend to stand idly by and watch foreign markets be snatched away as a result of subsidized export financing by our major competitors.

Mr. Chairman, I'm grateful for the opportunity this morning to present our views on the important matter of Eximbank's competitiveness. Before I conclude however, I do want to express to the Committee that Caterpillar commends the many contributions made over the years by the Export-Import Bank and its cooperative and able administration and staff.

Thank you once again, Mr. Chairman. I'd be pleased to try and respond to your questions.

Mr. DOUBET. Thank you, again, Mr. Chairman, for being able to speak here on behalf of our program.

Senator HEINZ. Gentlemen, thank you very much. As you know, this is an oversight hearing on the Eximbank, as I mentioned in my opening statement. The administration will be testifying Thursday afternoon. And many of you have offered very helpful sugges-

tions, growing out of your experience with the performance of the bank and the consequences of that performance. Many of you have documented lost sales, the change in sourcing, as we've heard, the lost markets, as we've heard, along, of course, with the loss of sourcing from one country to another, from the United States and others. We lose technology and know-how, ironically, the very thing that we would like in order to keep our competitive advantage here in the United States, to the very best of our ability.

LEGISLATIVE IMPROVEMENTS IN BANK'S CHARTER

Many of you have testified about legislative improvements that you'd like to see in the charter of the Bank and you're quite correct—we will be taking up the Bank's charter next year and we will be looking at a variety of changes in the charter to assure a properly competitive mandate on the terms that the Bank offers. We will look at the issue, obviously, of off-budget financing to address the problem. Some of you have quite eloquently set forth the terms of directors and so forth.

You have brought up a number of the other broader and equally important policy considerations, such as the issue of subsidized export credit financing, predatory subsidized export credit financing. And I would have to agree with you. It's my impression that there will be continued derogation, that the French, in particular, are absolutely determined, even, to a certain extent, by their total economic failure in the Mitterand plan so far, absolutely determined to go ahead and export their unemployment and failed policies to the rest of the world—at our expense.

And we, as you know, have reported from this committee the war chest bill, so that when we go to negotiations, we not only have a credible threat, but we have a means of defending our own interest, if that is necessary. That bill is pending on the Senate calendar.

And all of you have addressed these issues, and we thank you for your testimony. I would ask a few questions of some of you specifically.

Mr. Stamper, some of us are concerned that a purely defensive posture by the Bank might result in foreign purchasers that have traditionally bought U.S. products, Boeing and other products, seriously seeking bids from Airbus—we know that Airbus is competing very aggressively—not just in order to justify Eximbank financing, but because they have concluded that from prior examples, prior behavior of the Eximbank, that financing is going to be inadequate and, frankly, there's no sense fussing with Boeing or any of your friendly domestic competitors. The Eximbank isn't going to help Boeing or anybody else sell aircraft. We won't even bother to call up Boeing to see what kind of a deal we can get on a 747.

Is that the case? Can we expect that to be the case? Is there any sign that that is happening?

Mr. STAMPER. Yes, Senator, I think that is one of the problems that we are facing. It happened in the case I mentioned about Singapore Airlines. When the Bank makes a pronouncement that if you're an airline in a developed nation or an industrialized nation then you're not going to be extended direct credits, obviously,

there's no point coming into the Bank and making the application which goes against that policy. Some airlines might persist and still walk into the Bank. But fundamentally, people will tend to give up.

We have a number of instances of that and, of course, it spreads throughout the industry. As I was mentioning, at the Farmborough Air Show the word circulates that, the United States is interested in dismantling the Bank and slowly putting it out of existence. The dichotomy here is that while all of us would like to have the Bank removed eventually, but on our terms. Just as on our defense posture, unilateral disarmament doesn't make much sense. You've got to do it together.

Where that has really hurt is on follow-on sales. In other words, when you're buying a new airplane for the first time, like, say, TransBrazil would like to buy 757's as opposed to the Airbus, but you find that the U.S. Government is saying, we're going to slowly dismantle the Bank. Even if the Bank finances this one, when the airline comes back for the next buy and the following buy and the subsequent buys, maybe the Bank is not going to be there. Airbus says, "we'll be there."

So it's a lack of reliability in the financing and it has a very serious impact on these foreign airlines.

Senator HEINZ. I'm glad you made that point. I think that that needs to be emphasized, that it's not only a question of the first sale. It's a question of those follow-on sales. If we take a soft-headed attitude on the nature of the foreign competition out there, we're going to end up very soft on jobs for a very long time to come.

MOVING PRODUCTION OVERSEAS

Now, Mr. Doubet, you testified very eloquently to some of the changes in sourcing that your company had to resort to. You gave two examples of moving your production to other countries when, in fact, they could have been sourced normally if financing had been available in the United States.

Let me ask the gentlemen from GE and Westinghouse whether they have had any similar experiences, Mr. Lovett, Mr. Durka?

Mr. DURKA. Mr. Senator, we certainly have been under that pressure. I can't actually right now tell you whether we have actually done the kind of transfer that the gentleman from Caterpillar indicated. I would be happy to inquire into the matter and submit a statement.

Senator HEINZ. I would appreciate it, if neither of you have any specifics with you today, if you would please go back to the various divisions that might be affected and provide specific information for the record.

Mr. LOVETT. We have under active consideration several examples of outside sourcing right now and we will provide some information for you for the record.

Senator HEINZ. That would be extremely helpful. I'd also like to ask the same two companies, Westinghouse and GE, whether you lost any sales during the past year due to insufficient support from Eximbank? And if so, we'd like to be provided the specifics for the

record the effects of those lost sales on your company in terms of jobs, in terms of lost market position, temporary and permanent loss of customers, lost revenues for plant modernization, improved productivity, higher prices due to lost economies of scale, decrease of revenues for R&D, as well as reduced technology lead.

BUSINESS LOSSES DUE TO EXIMBANK NONCOMPETITIVENESS

But without giving me those specifics, to your knowledge, have your companies lost any sales during this past year due to insufficient support from Eximbank?

Mr. Durka.

Mr. DURKA. Yes, Senator. My company has lost a substantial amount of export business because of inadequate Eximbank competitiveness. And we will be glad to submit a statement detailing that representation.

Senator HEINZ. Do you have any rough idea how much that might be in lost sales?

Mr. DURKA. One problem in this area is the problem of causation. With regard to export sales in general, it is often very difficult to unravel the various factors that different people can say led to the loss of the business. And what I'm talking about and what I assume you're addressing are cases where it is fairly clear that Eximbank noncompetitiveness was the determining or extremely important factor from a causal point of view in the loss of the business, as distinct from a variety of other causes that were also operative.

Senator HEINZ. That's correct.

Mr. DURKA. And with that restricted, confined frame of reference, nevertheless, we still can submit a number of cases indicating that, in our judgment, we lost the business because of Eximbank noncompetitiveness.

Senator HEINZ. Are you talking about thousands of dollars, millions of dollars?

Mr. DURKA. There are six cases this past year that we've identified with a total loss of sales of somewhere around a quarter of a billion dollars.

Senator HEINZ. \$200 million?

Mr. DURKA. Yes, \$200 million plus, involving a loss of roughly 3,000 jobs.

Senator HEINZ. As you say, that's 3,000 jobs. There might be more jobs by the time you take into account all the suppliers. Those are just the jobs to your corporation; is that right?

Mr. DURKA. That's correct. And also, this reflects, as I say, the criterion of cases where we can point to Eximbank noncompetitiveness as the determining cause. There are many other cases that if we were less rigid in trying to apply causation, we could say that they were also cases where we lost business because noncompetitiveness was a factor.

Senator HEINZ. Mr. Lovett, do you have any comparable examples?

Mr. LOVETT. Yes. We have three here in front of me. A steel mill expansion job in Mexico for \$85 million.

Senator HEINZ. Maybe some of my steelworkers are just as happy that that didn't go ahead. But someone else is building it, aren't they?

Mr. LOVETT. Right.

Senator HEINZ. Who, in this case, is building it?

Mr. LOVETT. UK, the British.

Senator HEINZ. Of course, there's no subsidies under Margaret Thatcher. Just about 1 billion pounds, not dollars, 1 billion pounds at \$2.20, roughly, 1 year, to the dollar.

Mr. LOVETT. We lost a turbine generator job in Korea, another \$80 million, to the French. And escalators in Mexico. We lost them to the French, too. All three cases due to export financing.

Senator HEINZ. We'd appreciate receiving those details, gentlemen. And Mr. Stamper and Mr. Doubet, if you have any additional details you'd care to submit for the record, we'd be very pleased to have that.

Senator HEINZ. I think you've been extremely helpful to the committee and I'd like to yield to my distinguished friend and colleague, Senator Proxmire, for any questions that he might have.

Senator PROXMIRE. Thank you, Mr. Chairman.

Gentlemen, I am as concerned as you are about the overall picture. I think if we just discuss the Eximbank as if it's in a vacuum, we miss the big point. The problem we have in our economy now is high interest rates. With high interest rates, the homebuilding industry, for instance, is just flat on its back. They're operating at less than 50 percent of capacity. We're losing probably 2 million jobs in the homebuilding industry because we're losing 1 million housing starts compared to what it ought to be, and every housing start is 2 man-years of work. The job losses are due to the fact that interest rates are so high.

We're losing automobile sales because people can't finance automobile purchases. Now why are interest rates high? That's because the Federal Government has this colossal deficit, increasing constantly, a deficit that is predicted now to be over \$150 billion this year. In fact, the Congressional Budget Office estimates \$155 billion. And, as we all know, we have a \$1 trillion plus national debt.

Now the Export-Import Bank also represents borrowing on behalf of the Federal Government. And we can't blink at the fact that it's not a free ball game any more than any of the other borrowing is. And it seems to me that we have to be just as tough and just as critical of the possible situation we're getting into with the Export-Import Bank as we are in any other area.

I have here a report of the Comptroller General of the United States. He says that the risk of incurring possible future losses increase to a larger extent in 1981-82. He says this increased risk is due primarily to loan purchases, outstanding purchase agreements, and principal and interest delinquencies.

Now I look at the list of exposures, by country, that are involved here and they're enormous—Argentina, \$666 million; Brazil, \$1.8 billion. These are some of the countries where Eximbank exposure is large. There are other exposures that are higher, but these are the countries that are in the most difficult positions: Mexico, as we all know in very bad shape, \$2.7 billion; the Philippines, \$1.1 billion; Yugoslavia, \$949 million; Zaire, \$624 million.

Now it seems to me that in looking at the Export-Import Bank, Mr. Doubet, don't we have to be concerned not only that we do our best to help our export sales, but that we do our best also to protect this country from getting into a position where our deficit is going to be even bigger? Because of the colossal obligations that I've just discussed here, we could approach a situation where the liabilities of the Export-Import Bank greatly aggravate the deficit that we're already suffering from, couldn't we?

Mr. DOUBET. Well, Senator, it seems to me that we're really talking about two things. The Export-Import Bank supports American business, which, in turn, increases the tax base of the United States. And so when we do export into markets around the world, we generate employment, opportunities, additional tax dollars, and moneys for subsequent reinvestment in people buildings, and machinery.

SUBSIDIZATION QUESTION

Senator PROXMIRE. That's a good, solid argument. It's the same argument that the housing people make when they say that we should subsidize them. They say, after all, we're going to provide jobs, and those jobs mean that people are going to be off unemployment compensation, paying taxes, and so forth, and they make a good case. That's right.

For the same reason, I don't see why exports should get any preference over subsidizing housing.

Mr. DOUBET. Well, subsidization of housing is limited in its effects. We're talking about doing business in third countries, of generating foreign exchange dollars. We export in competition with other nations. We have to meet this foreign competition for export business. Eximbank financing helps U.S. business meet this competitive challenge. It doesn't seem to me that the housing market in the United States really competes.

Senator PROXMIRE. Well, when we subsidize export sales, we subsidize the people who buy it abroad. We also provide jobs in this country through exports. That's true, but when we subsidize housing, we subsidize jobs in this country, and also subsidize homebuyers in this country in the process.

I understand the argument that you make, and I think it's an argument that's very compelling, obviously, to Members of the Congress and most members of this committee, but I think it's one that we ought to face and answer and recognize that under present circumstances the answer is not subsidizing interest rates to anybody. What we should be trying to do is to use the Export-Import Bank, it seems to me, to negotiate an agreement on the part of other countries that they will stop interest rate subsidies so that we can compete on the basis of quality and price, and not on the basis of who's got the biggest giveaway program.

Mr. DOUBET. Well, I agree with that. But it's very difficult to negotiate from a position of weakness. And I think that we're in a position these days where we are not strong in the export area. And we are not giving signals to other countries that we're in this export game to stay.

This, I think, is the basic problem. I'd love to see us out of the business of subsidizing export financing. But it doesn't seem to me that we're going to get there by doing it on our own. We must bring other countries along with us.

Senator PROXMIRE. Well, I would hope that you in the industry would use your very considerable influence, because it is considerable and it should be, to try to persuade the Bank to do its best to work toward recognition on the part of all countries that they hurt themselves, they hurt their own taxpayers, and they don't benefit the world economy in the long run if we have a competition based primarily on who can provide the biggest export subsidies.

Mr. DOUBET. I can't disagree with that statement. This morning someone mentioned that the Bank had lost, \$8 or \$10 million in the 40 some years that it has been in business. This relates to your comment concerning exposure. I don't know what's going to happen with the outstanding loans that the Eximbank now has. But the Bank's record would certainly indicate that past loans have been sound and the payoff has been very good.

Senator PROXMIRE. Mr. Durka, interest rates have been coming down slowly, belatedly, but coming down. If they stay at their present levels or drop further, what effect would there be on export sales and on the competitiveness of U.S. exports?

Mr. DURKA. Well, I think, in general, it depends, of course, on what other countries do and how effectively the OECD arrangement is observed and what the Bank's policies in relation to the arrangement are. And, to a large extent, obviously, the more interest rates come down, the more the gap between commercial rates and the foreign concessionary rates decreases, the less of a problem of the kind that we're discussing here today will there be.

Could I comment, though, on the exchange that you had with the gentleman from Caterpillar?

Senator PROXMIRE. Yes, sir.

Mr. DURKA. The basic, the root concept of a subsidy is that there is a net taxpayer cost. And I take it that that was implicit in the dialogue that you had with the gentleman from Caterpillar. There is increasing evidence that over the years, and the Bank has been in existence almost a half century, that because of how the Bank's interest rates that it was charging related to what it was getting, that the issue was never really faced as to just how much of a subsidy the Bank was.

Now high interest rates have forced the Bank to pay more for the money it sold than its selling price, so to speak. Therefore, the question of subsidies comes very much to the fore, but I think recent evidence indicates that there is no net taxpayer cost; that is, there is no subsidy involved in the Bank's operations; that what is included in the budget for the Bank is a figure that has no business being in the budget and that when you analyze what the taxpayer cost, however you determine that, for the Bank is, it is exceeded by what the Bank brings into the Treasury in the way of accumulated revenue.

So that although this is an issue that has not been 100 percent resolved, I think there is a considerable body of credible evidence to indicate that the Bank is not in this net taxpayer cost sense a subsidy of the United States.

Senator PROXMIRE. Well, let me read you what John Boyd, senior economist at the research department of the Federal Reserve Bank of Minneapolis, has said about that after a formal cost-benefit analysis of the program. He said: "Based on the costs and benefits coming directly through Eximbank, my study concludes that during the years studied, 1976 to 1980, Eximbank's lending program was, indeed, subsidized and much more heavily than previous studies have suggested. According to my estimates, this program's annual cost exceeded its benefits by an average of about \$200 million. The subsidy increased substantially over the sample period and by 1980, may have reached as high as \$650 million."

Now I commend the study by Mr. Boyd to your attention, because he is a responsible economist. He is the senior economist of the research department of the Federal Reserve Bank of Minneapolis, and I think that I would invite you to submit for the record your response to Mr. Boyd's conclusions, because they contradict your position.

Senator HEINZ. If the Senator would yield, I would be willing to put into the record, if it would help, a list of all the responsible economists I know, a very lengthy list, all of whom were wrong on the economy repeatedly over the last 6 or 7 years. [Laughter.]

Because somebody is responsible is no guarantee—in fact, some of my constituents even accuse me of being responsible, but still, not giving the perfect advice.

Senator PROXMIRE. Well, I appreciate the chairman's observation. Nobody's perfect. Even the former Chairman of the Council of Economic Advisers, Mr. Weidenbaum, made a few mistakes now and then.

But I think that this is a serious matter here and Mr. Durka, you're a highly competent person. You've made some representations that I think are challenged by this, and I think it would be very helpful to us if you would respond to Mr. Boyd's argument that the Eximbank has been heavily subsidized and that in view of the situation that faces us and in view of the trend, the situation is probably worse in 1982 and 1983, the subsidy is increasing very rapidly.

Mr. DURKA. Fine, Mr. Senator. We would be glad to do that. I would just like to add as a footnote to that statement that a lot depends on how you define "cost" and how you define "benefits."

Senator PROXMIRE. Of course it does.

Mr. DURKA. I'm familiar with Mr. Boyd's study and a number of other studies, some that say that the Bank involves a far greater subsidy than Mr. Boyd has had the temerity to say.

Senator HEINZ. I think it would be a good idea to have analysis of that put into the record. I appreciate your responding to Senator Proxmire's request. Thank you.

Mr. DURKA. Be glad to do so (see page 520).

Senator PROXMIRE. Thank you, gentlemen. I have some other questions, but the time is late and so I'll yield to the chairman.

Senator HEINZ. Senator Proxmire, thank you. That's an important line of questioning because there are conflicting statements about what is and is not a subsidy, what is and is not a benefit. And I think that anything that we can do to throw light on that subject is very valuable. I do appreciate that.

Gentlemen, there will be other members of the committee, I am sure, that have questions. I have a few I'd like to submit to you in writing. But let me thank you all for a series of very thoughtful, very excellent, presentations.

Thank you very much.

Our next witnesses are: Mr. Brian Turner; Mr. John Babson; Mr. Ray Garcia; and Mr. Lawrence Fox. Would you gentlemen please come forward.

Our first witness will be Mr. Brian Turner and Mr. John Babson. Mr. Babson, please proceed.

STATEMENT OF BRIAN TURNER, DIRECTOR OF LEGISLATION AND ECONOMIC POLICY, INDUSTRIAL UNION DEPARTMENT, AFL-CIO, AND JOHN R. BABSON, VICE PRESIDENT, INGERSOLL-RAND, ACCOMPANIED BY: ALLAN D. CORS, VICE PRESIDENT, CORNING GLASS WORKS; AND GEORGE COLLINS, LEGISLATIVE DIRECTOR, INTERNATIONAL UNION, ELECTRICAL RADIO & MACHINE WORKERS, AFL-CIO

Mr. BABSON. Mr. Chairman, I have with me, as you know, Brian Turner, director of legislation and economic policy of the Industrial Union Department of the AFL-CIO. Also, George Collins, the director of legislation, from the International Union of Electrical Workers. And Allan Cors, who is vice president of Corning Glass. And I am vice president of Ingersoll-Rand.

Mr. Chairman, we applaud your initiative in holding this oversight hearing on the Export-Import Bank to analyze the Bank's effectiveness in performing its mandate and to explore possible legislative changes to improve the Bank's operation.

[The complete statements follow:]

STATEMENT OF JOHN R. BABSON, VICE-PRESIDENT, INGERSOLL-RAND CO., AND BRIAN TURNER, DIRECTOR OF LEGISLATION AND ECONOMIC POLICY, INDUSTRIAL UNION DEPARTMENT, AFL-CIO

Mr. Chairman: We applaud your initiative in holding this oversight hearing on the Export-Import Bank of the United States to analyze the Bank's effectiveness in performing its mandate and to explore possible legislative changes to improve the Bank's operations. LICIT thinks that it is especially important to begin this process now, a year before the Eximbank charter requires renewal, so that sufficient thought and public debate can focus on the most appropriate legislative actions that should be taken. On behalf of LICIT, we will comment on the three legislative proposals contained in S. 2600 and suggest some additional ones for the consideration of this Subcommittee.

Before we begin to discuss possible legislative proposals, however, it is important to stress the fact that legislation in itself is not a sufficient condition to remedy the trade problems for American companies arising out of international competition utilizing officially subsidized exports credits. Appropriate legislation must be accompanied by a firm commitment of the United States Government to support U.S. exporters and to provide them with equal competitive opportunities in world markets, including export financing. Absent such a commitment, the best designed legislation concerning Eximbank will prove inadequate. Therefore, it is vital that, along with consideration of legislative measures, the public policy debate and the educational process concerning the importance of the Export-Import Bank for American economic interests should continue unabated. Your consciousness-raising efforts in this regard, Mr. Chairman, are to be commended. As on many important international economic issues, your leadership in the Congress in explaining and promoting the essential functions of the Eximbank has been outstanding.

THE IMPORTANCE OF THE U.S. EXPORT-IMPORT BANK

Mr. Chairman, speaking from the experience of Ingersoll-Rand, I would like to illustrate in very simple terms why Eximbank is essential in today's international environment. Ingersoll-Rand is an international company with manufacturing operations in many countries. A large part of what we manufacture is heavy machinery and equipment, much of which is used for the extraction and processing of raw materials. It is a very competitive world market and, for the capital equipment we produce and sell, financing factors are a crucial part of the competitive equation. We are an American company and prefer to source here whenever we can. Unfortunately, and this happens all too often, we are forced to invest and produce our products in other countries, solely because those countries offer export financing that is much more competitive than what is available from our Export-Import Bank.

Because of the international competition utilizing officially subsidized export credits, we are often faced with the situation of sourcing in another country or losing the sale altogether. This same situation applies not only to Ingersoll-Rand, but to many other firms producing industrial machinery. The Machinery and Allied Products Institute (MAPI) published this spring the results of a survey of multinational companies concerning instances during 1981 in which they sourced from a foreign subsidiary or other foreign affiliate in order to obtain competitive financing. In that survey, which you entered into the Congressional Record on April 20, Mr. Chairman, 14 companies reported that 39 transactions with a value of \$386.7 million had been shifted to foreign affiliates primarily, if not exclusively, because of more competitive financing available to the foreign affiliate from another government other than the United States. In short, by not having export credit programs that are competitive with the programs of other countries, the United States unwittingly encourages U.S. companies to produce overseas.

The other side of this unfortunate picture is that occasionally Ingersoll-Rand and other companies as well, will have to source abroad for sales in the U.S. market, again because of the necessity to offer a package to our customers that is competitive with respect to credit terms. We will source overseas in order to obtain export financing on terms that are competitive with the export financing available to foreign firms we compete with. The problem of subsidized financing of export sales into the U.S. market is one that LICIT believes should be addressed more effectively than it is under current law. We will have more to say on this matter later in the testimony.

The United States cannot afford to give up its best industries to the subsidized financing of exports of foreign governments. At stake are billions of dollars in manufacturing exports and hundreds of thousands of jobs. For the United States the stakes are especially great because the competition is focused in those capital goods sectors where the U.S. has traditionally had a strong comparative advantage. These sectors include commercial aircraft, construction equipment and machinery, extraction equipment and processing plants for primary resources, electric power plants and other heavy electrical equipment, and large telecommunication systems.

From 1977 to 1981 the U.S. Export-Import Bank supported, through all of its programs, sales of \$71 billion upon which 2.2 million U.S. jobs depended. Even so, many U.S. jobs and export sales were lost to subsidized export credits of foreign governments. LICIT released a report in May of this year which identified, despite the scarcity of good information publicly available, the loss of at least \$1.5 billion in exports and 46,000 U.S. jobs in 1981 because of competition from other industrialized countries using officially subsidized export credits. These export and job losses occurred in 1981 before Eximbank's direct loan authority was reduced. Although data are not yet available, LICIT believes that these losses of jobs and exports are now, sadly, increasing sharply. We believe it would be helpful for the public debate if some government agency, either Eximbank or Commerce, for example, would collect and publish on a quarterly basis the export sales lost to the U.S. in situations where subsidized export credits of other governments are a significant factor in the loss.

In the pamphlet issued in May, LICIT discussed in detail its views on the state of international negotiations concerning officially supported export credits. We will not go into a discussion of these issues here.

However, I would like to emphasize the point that, after the latest agreement reached in June to raise minimum interest rates slightly, the United States is still not competitive with the programs in other countries because the Eximbank rates are above the arrangement rates. The time has long since come when the United States should begin to back up its negotiating rhetoric with action.

The foundation of U.S. export credit policy in the near-term must be based on a financially competitive Eximbank that has adequate authority to ensure that no

U.S. exports or jobs are lost solely because of unfair export credit subsidies provided by foreign governments. This means that the decision taken by the Administration to seek reduction in Eximbank's obligational authority for fiscal year 1983 must be reversed. In addition, we believe that the proposals you have put forward, Mr. Chairman, can help to establish the conditions that will ensure such an export credit policy as a permanent fixture of U.S. policy.

Mr. Chairman, let me begin by stating that LICIT supports extending and strengthening Eximbank's charter. Our hope is that the Bank's operations over the next 5 years will be more effective than they have been recently in supporting U.S. exporters in competition with companies in other countries that receive subsidized export credit support from their own governments. We believe that this hearing can be an important impetus toward bringing about the changes that will ensure that the Bank more effectively fulfills its Congressional mandate.

The way in which Eximbank is treated in the budget has caused needless confusion about the Bank's fiscal implications and has resulted in unnecessary and harmful constraints on the Bank's operations. LICIT addressed this issue at length last May in our pamphlet *The Erosion of America's Competitive Edge*. Removing Eximbank from the unified federal budget, as proposed in S. 2600, would take care of this problem. At the same time, however, we understand and agree with the concern of Congress to monitor and control federal credit activities, of which Eximbank is one. What we don't understand is the convoluted logic of treating loans as expenditures for purposes of computing the budget surplus or deficit. There must exist better ways to deal with credit activities in the budget.

The other area of confusion we find is the apparent lack of criteria in putting different federal credit activities on or off-budget. Why is Eximbank on budget, yet other federal credit activities—like the Farmers Home Administration, the Rural Electrification and Telephone Revolving Fund, Foreign Military Sales Credits, Student Loan Marketing Association—are off-budget? LICIT agrees with the objective of the proposal to take Eximbank off-budget. We would hope at a later date to have a more definitive statement on this matter.

Another proposal in S. 2600 is to establish fixed, staggered 4-year terms for the President, Vice-President and Board of Directors of the Bank. The objective is to provide for more consistency in lending policies and more independence for the operations of Eximbank. We believe that this is a desirable objective and that your proposal, Mr. Chairman, is one way to trying to ensure such an outcome.

The third major proposal in S. 2600 is the establishment of an interest subsidy fund for agricultural and manufactured products—a more expanded and institutionalized form of the "war chest" concept. The objective here, which we strongly support, is to provide Eximbank with more effective means to combat export credit subsidies of other governments.

In addition to these changes in the Eximbank charter, LICIT would like to suggest consideration of two additional issues that need to be addressed.

The first additional issue is the urgent need to implement an effective remedy for subsidized financing of export sales into the U.S. market. Recent experience has proven that the OECD Arrangement and U.S. countervailing duty law are not adequate deterrents to prevent the economic injury caused by the subsidized export financing practices of foreign governments to win sales away from U.S. manufacturers in our own market. For one-shot sales of "big ticket" capital equipment—whether heavy electrical machinery, telecommunications systems, commercial aircraft or large orders of self-propelled rail cars—U.S. producers are left effectively without any defense against a foreign competitor backed up by government-provided export financing at whatever terms are needed to win the sale. Even if the domestic producer were able ultimately to prevail in a countervailing duty petition or in a section 301 unfair trade practice complaint adjudicated through the GATT mechanism, the damage will already be done: the contract is lost, and with it a major package of production and jobs for the U.S. economy. And the loss, Mr. Chairman, is not to market competition, but to the unequal, unfair competition of market financing for U.S. producers versus government-subsidized financing for the foreign competition. The effectiveness of available remedies would be different if it were a matter of, say, light bulbs or other products sold in this country in many transactions over a period of years; there the ultimate imposition of countervailing duties would offset the artificial competitive advantage of the foreign producers and prevent the unfair loss of sales and jobs in the future. In the cases of large capital equipment items, however, there is no remedy in this fundamental sense of prevention. These big-ticket sales of capital equipment, of course, are precisely those that are financed by the U.S. Export-Import Bank and its foreign counterpart agencies.

There has been considerable discussion, Mr. Chairman, of ways of rectifying this problem. Proposals have been made to provide sanctions directly against certain public entities which accept bids financed by subsidized foreign export credits, as well as proposals to make mandatory the Export-Import Bank's present option, when and if authorized by the Treasury Secretary, to provide matching financing for domestic producers when government subsidized financing is provided to foreign bidders.

We are persuaded, however, that a more direct and less-costly method should be explored for providing preventive remedies for U.S. producers faced with the prospect of overcoming the gap between the market financing available to them and the government subsidized rates often available to their foreign competitors. We suggest the subcommittee consider the suggestion that in the special circumstances noted above concerning capital equipment sales, subsidized export credits be prohibited for bids on contracts in the U.S. market where there is a domestic bidder. We think this idea may offer a more definite, less costly, and less reactive policy for preventing the unfair loss of major contracts by U.S. producers who are fully competitive in every respect but one—their reliance on market financing. In order to meet the injury criterion recognized in the GATT, consideration should be given to a legislative determination of a *prima facie* injury to the competing domestic producer—a presumption of injury which could be rebutted by the foreign producer within, for example, the context of a fast-track GATT proceeding. It might prove useful to also require that bidders for such capital equipment contracts indicate the full range of government support they receive from their governments; such a requirement would capture the possibility of shifting the weight of government support from prohibited export credit subsidies to other kinds of assistance that could provide decisive competitive advantages to foreign producers of capital equipment for the U.S. market.

The second proposal is to strengthen, in some way, the Congressional directive to the Export-Import Bank to offer export financing "at rates and on terms and other conditions which are competitive" with the official export credit programs of our major competitors. The problem we want to mitigate is the resistance, for example, of the current Directors of the Bank to offer sufficient financing at competitive rates. Perhaps what is required is a more explicit definition of "competitive" or a more unambiguous statement of the primary objective of the Export-Import Bank. We understand, Mr. Chairman, that your proposal concerning fixed, staggered terms for the Bank's Directors attempts to deal with this issue but we wonder whether that is sufficient in and of itself.

LICIT will be discussing and evaluating these and other proposals in the coming months. Hopefully, working with you and your staff, we can improve upon and put into appropriate form some of these proposals so that next year's renewal legislation will not only extend Eximbank's charter but will renew and revitalize its effectiveness in supporting our nation's economic interests.

Mr. Chairman, that ends our prepared remarks. We would be happy to answer any questions that you or other members of your subcommittee may have.

LABOR-INDUSTRY COALITION FOR INTERNATIONAL TRADE

Bethlehem Steel; Amalgamated Clothing and Textile Workers Union; Communications Workers of America; Corning Glass Works; International Union of Electrical, Radio and Machine Workers; International Brotherhood of Electrical Workers; American Flint Glass Workers Union; The BF Goodrich Company; Industrial Union Department, AFL-CIO; Ingersoll Rand Company.

International Ladies' Garment Workers Union; International Association of Machinists and Aerospace Workers; United Paperworkers International Union; United Rubber Workers of America; St. Joe Minerals Corporation; United Steelworkers of America; W. R. Grace & Co.; Westinghouse Electric Corporation; and Weyerhaeuser Company.

Mr. BABSON. I'd like to have Brian Turner follow with some of the specifics.

Senator HEINZ. Yes, Mr. Babson, thank you. Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman. In light of the hour and the schedule, I'd like to just submit my full written statement and touch on the highlights.

Senator HEINZ. Very well, without objection, so ordered. Without objection, the very excellent report prepared by LICIT in May 1982, called, "The Erosion of America's Competitive Edge," that you referred to will be a part of the record as well.

[The material referred to follows:]

THE EROSION OF AMERICA'S COMPETITIVE EDGE

Official Export Credits
and International Competition for
Jobs and Markets

LICIT

The Labor-Industry Coalition for International Trade

May, 1982

FORWARD

The Labor-Industry Coalition for International Trade, LICIT, is publishing this paper as the second in a series of pamphlets designed to contribute to the national debate on important international economic policy issues that directly affect large numbers of American firms and workers. International competition utilizing officially subsidized export credits is a critical trade problem confronting the United States. Yet the magnitude of this problem and its serious implications for important manufacturing sectors of our economy are not well understood or appreciated. The objective of this paper is to increase the awareness and understanding of this problem on the part of public officials, labor and business. We hope this understanding will result in broad-based support for a financially competitive U.S. Export-Import Bank to enable the United States to press effectively for multilateral agreement to end the unfair subsidization of official export credits.

The Labor-Industry Coalition for International Trade seeks to articulate the common interests of American workers and American business in promoting increased, balanced and equitable trade among all nations of the world. Without reference to outdated slogans of "free trade" and "protectionism," LICIT supports open, fair competition for foreign products in the United States market and for American-made products in foreign markets. The Coalition is a voluntary association representing a representative number of key firms and manufacturing unions. It is not an official arm of any labor or industry group.

This paper was prepared by William A. Noellert, LICIT's staff economist, but represents collective contributions from

many of the representatives from the member organizations of LICIT. We are also indebted to Brian Turner and Allan Cors for their efforts concerning the respective contributions of labor and industry to this paper. The paper has benefited from the assistance and critical comments of many knowledgeable people outside of LICIT. Special thanks for their time and expert advice goes to the many professionals at the Eximbank, Treasury and the Office of Management and Budget, who provided factual information, although clearly not necessarily in each case approval of the policies expressed, with respect to much of the material contained in the paper.

The entirety of the views described in this paper are not necessarily those of any individual LICIT member. However, all of the members of LICIT believe that the analysis provided, the policy issues raised, and the positions taken, will make an important contribution to public awareness of the efforts needed to bring under control the growing international competition utilizing officially subsidized export credits.

Amory Houghton, Jr.
Chairman
Corning Glass Works
LICIT Co-Chairman

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Alan Wm. Wolf
Counsel to LICIT

May 1982

Executive Summary

The industrialized countries of the West are engaged in an escalating international competition for jobs and markets utilizing government-supported export finance. At stake are billions of dollars in manufactured exports and hundreds of thousands of jobs. For the United States the stakes are especially great because the competition is focused in those capital goods sectors where the U.S. has traditionally had a strong comparative advantage -- commercial aircraft, construction equipment and machinery, extraction equipment and processing plants for primary resources, electric power plants and other heavy electrical equipment and large telecommunication systems.

Spurred on by U.S. insistence, and the increasingly costly nature of the competition, industrialized countries are attempting to negotiate the elimination of direct subsidization of official export credits. However, even as these international talks proceed, the U.S. Administration has unilaterally decided to curtail the ability of the U.S. Export-Import Bank (Eximbank) to support U.S. exports. It has sought reductions in Eximbank's authority to borrow money and extend export credits. Eximbank's direct loan authority was reduced 19 percent in FY 1982 and the Administration is seeking a further reduction of 14 percent for FY 1983. This decision, if not reversed, at best seriously impairs America's ability to negotiate agreed limits to official government export credit subsidies. More likely, this course of action is completely self-defeating.

The costs include not merely the billions of dollars invested in unnecessary international export credit competition by all participants. Far worse, unilateral

disarmament by the United States in the export credits race means that U.S. exporters will lose billions of dollars of sales abroad. The human cost is greater. Hundreds of thousands of America's most skilled jobs are being lost.

From 1977 to 1981 the U.S. Export-Import Bank supported export sales of \$71 billion upon which 2.2 million U.S. jobs depended. Even so, many U.S. jobs and export sales were lost to subsidized export credits of foreign governments. These losses of sales and jobs are now, sadly, increasing sharply.

In an ideal world, exports from different countries would compete on the basis of quality and price, not on the basis of anything as artificial as differences in the willingness of national treasuries to provide subsidized official export credit. Unfortunately U.S. firms and workers do not compete in an ideal world. Any serious analysis of the domestic and international context of Eximbank's programs demonstrates that it is critically important that government support for Eximbank's direct loans and loan guarantees should not be curtailed until U.S. negotiators succeed in eliminating international competition based upon subsidized official export finance. The guiding principle in these negotiations should be that officially supported export credits must be a neutral element in international trade.

This LICIT paper presents an analysis of the key issues relevant to the current domestic debate over the funding of the Export-Import Bank. It attempts to place that debate in the context of the international export credit competition, the outcome of which is so critical to important sectors of world commerce and the American economy. Until a new



HOWARD D. SAMUEL

PRESIDENT
INTERNATIONAL UNION OF EXPORTERS

"Our country's export credit policy can't be based on wishful thinking and an idealized vision of the world. The fact is that we are in an international export credit war where other governments are seeking to unfairly increase their exports of capital goods with subsidized financing. Over two and a half million American workers produced capital goods for export last year. These workers represent a major proportion of the human skills and knowledge that are the foundation of our country's industrial strength. Further reducing Eximbank programs without having negotiated an end to the export credit war not only jeopardizes many of these workers' jobs. It also contributes to a further deterioration in America's industrial base."

arrangement is negotiated that eliminates the government subsidy element in export finance, the United States' Eximbank must have funding adequate to enable it to meet financial competition from foreign export credit institutions. This is necessary not only to maintain our country's negotiating leverage, but also to preserve American jobs and market shares in the face of a growing challenge of unfair competition.

Continuation of the current loss of sales and jobs is causing permanent damage to the United States of the most

far-reaching sort. It is the purpose of this paper to call attention to the long term damage to the American economy being caused by policies based on short term concerns. When the public is fully aware of the costs of the supposed savings made today at the expense of the U.S. industrial base of future decades, and of the employment lost for future generations of Americans, the current policies will be reversed. If this paper hastens that awareness even slightly, it will have served a useful purpose.

Introduction: The Domestic Debate Concerning the U.S. Export-Import Bank

Why have the levels of Eximbank operating authority been cut back in 1981-1982? The basic source of the difficulty has been a lack of understanding and public awareness concerning how the Eximbank operates and the benefits it provides for the U.S. economy. This lack of understanding masks the importance and efficacy of the Bank, and has resulted in successful efforts to limit the Bank's operations. While the U.S. negotiators in the OECD have pushed hard to reach an international agreement to halt subsidized official export credits, other Administration officials have unintentionally undermined these efforts. In the budget process, they have questioned the need for any official export credit program at all, leaving the U.S. negotiators without adequate leverage to bring about the result that all American policy-makers desire: the curbing of export subsidies.

In FY 1982 there has been a 19 percent reduction of Eximbank's direct loan authority (from \$5.4 billion to \$4.4 billion). A further reduction of 14 percent (down to \$3.8 billion) for FY 1983 has been proposed. As long as other countries continue to provide subsidized credit support for their exports, the effect of such reductions in this support of

U.S. exports will not mean smaller federal budget deficits, but lost U.S. jobs and reduced federal tax receipts.

At present, most developed countries are offering export financing at interest rates substantially below prevailing market rates and below the rates these countries must pay to borrow funds. This subsidization of exports is widespread despite international condemnation of export subsidies by international agreement as far back as 1958 in the General Agreement on Tariffs and Trade. Export subsidies in the form of credit at below-market interest rates are implicitly allowed, however, by an international "Arrangement" adhered to by the United States and other major exporting nations, provided the rates are not less than the minimum rates established in the Arrangement. Currently, the interest rate floors set in the Arrangement are substantially below prevailing market rates and therefore do not act as barriers to subsidized export credit competition.

Before proceeding to analyze this international competition and possible solutions, it is important to understand the role of official export finance programs and how the Eximbank operates.



SENATOR JOHN CHAFEE

"A non-competitive financing offer most often means loss of the sale and often permanent loss of market. If the government cannot end other nations' subsidies and will not match them, we force major losses abroad upon our companies here at home. We also force the outright transfer of business and technology abroad as industries move overseas or license their products in order to obtain competitive financing. Those, in the Administration and elsewhere, who complain about the movement of important American know-how and technology overseas should realize that our own policies accelerate this problem."

Governments have long been involved in providing official credit support for exports from their countries. The U.S. established its official export credit agency in 1934 after similar agencies had been set up by other countries. The British established their export credit agency in 1919, the Germans in 1926, the Italians in 1928 and the French in 1929. The Export-Import Bank of Japan was established in 1950.

The underlying rationale for the establishment of official export credit agencies is to fill an important void in international transactions by providing financing in those many instances when private lenders are unable or unwilling to finance the sale of goods overseas. This is due to the special credit characteristics and risks which are not present in domestic transactions.

First of all, exported goods are sold to geographically distant buyers who are likely to be less well known to the seller than buyers in the seller's own country. The buyer will also be subject to a different legal system and different trade customs.

Secondly, again for geographical reasons, the time taken for goods to pass from seller to buyer is generally longer for exports.

Thirdly, exporting entails an exchange risk, since it involves payment in a foreign currency, either to the buyer or to the seller, or to both. Exporting may also involve exchange control regulations.

Fourth, the long useful life of such goods makes buyers prefer credit terms that are longer than commercial banks

generally are able to extend in international markets without some form of government guarantee.

Finally, dealing with buyers abroad entails further risks known as country or market risks. These range from delays in payment to outright default, for example, in the event of war or civil strife.

Thus, the objectives of the official export credit programs were twofold: to minimize the special commercial and political risks noted above so the producer would not be deterred from exporting; and to provide the necessary credit to enable purchasers to pay for the exports.

Until the late 1950s, officially supported export credits were not a significant factor in international competition. However during the 1960s it became standard practice for major exporting countries to offer some form of official support for most medium and long-term credit for capital equipment exports. This was the result of the rapidly escalating value of individual capital goods transactions, and a growing demand for them from developing countries. The size of the transactions and the financial status of the buyers meant that these exports could only be sold on credit, but the private sector would not provide the necessary credit due to the long maturities and the risk entailed. The financial package involving official export credit support came to be an element of international competition for large capital goods exports, on a par with technical quality and price.

By the 1970s, due to increasing international competition, governments like the United Kingdom began to

subsidize the interest rate for export credit. While previous government involvement had been limited to intervention designed primarily to remove impediments to the provision of export finance by private banks, there was now direct subvention to the exporters. As the growth of world demand slowed in the 1970s, the efforts of exporting countries to match each other's offers became increasingly competitive. However efforts to control this competition were not very successful (see part III).

The recent debate about levels of "funding" for the Eximbank reveals widespread confusion concerning the impact of Eximbank programs on the overall federal budget.

The Bank does not receive any appropriations of taxpayers' funds from the Congress. As a self-sustaining U.S. government-owned corporation, Eximbank's policy has been to generate adequate earnings to cover its costs. Eximbank meets its day-to-day lending needs through funds raised in the open capital market. The Bank was capitalized in 1945 with \$1 billion provided by the United States. Since that time, the Bank has paid dividends to the Treasury amounting to slightly more than \$1 billion, and produced retained earnings of more than \$2 billion.¹

Congress establishes a limitation or ceiling on the amount of obligations which Eximbank can undertake in each fiscal year. Thus, with respect to Eximbank, the term "funding" is very misleading. Congress is not providing any funds or monies to the Eximbank in the yearly consideration and approval of the budget.²

The following table presents in a simple way how the Export-Import Bank appears in the federal budget.

However, this budget treatment is very misleading. The surplus or deficit line in the budget represents the difference between the federal government's income and expenditures. A deficit shows that expenditures exceed income and therefore must be financed either through borrowings by the Treasury or by an increase in the amount of money printed. These borrowings must then be repaid by future tax receipts or further borrowing. Eximbank is different in the sense that outlays for Eximbank will be repaid with interest by the customers of the Bank and not through tax collections. In other words, unlike most other items in the budget, the Bank's outlays are actually loans and not expenditures. Eximbank generates its own receipts.

Eximbank outlays in any given year represent net borrowings of the Bank to meet its obligations and thus reflect

¹ The operating authority of Eximbank under the Export-Import Bank Act is to lend, guarantee, and insure a credit to \$40 billion outstanding at any one time. This borrowing authority gives the Bank the loan obligation; no subsequent appropriation is required. The authority is both permanent and irrevocable and allows the Eximbank to borrow from the Treasury and/or in the capital markets for as long as necessary. The amount of annual borrowing is not predetermined in the existing legislation.

² Only the level of Eximbank's direct loan obligations affects outlays. Guarantees and insurance do not affect outlays, although 75 percent of guarantee and insurance expenditures are charged against the overall \$40 billion statutory limit.

³ The rapid increase in interest rates of the past few years has cut deeply into Eximbank's net income because its borrowing costs have risen relative to the cost of the loans. The Bank is projected to have a small net loss this year for the first time in its history, which will have to be covered by Treasury transfers to it for its operating costs (see page 6).

TABLE 1						
Eximbank and the Budget						
(\$ billion)						
	1981	1982 *	1983 *	1984 *	1985 *	1986 *
Budget receipts	595.3	0.0	626.8	0.0	666.1	0.0
Budget outlays	657.2	2.1	725.3	1.9	757.4	1.9
Surplus or deficit (1)	-57.9	-2.1	-98.5	1.9	-91.3	-1.9
Budget authority	718.4	6.9	765.5	4.0	801.9	2.7
a. estimate						

Source: Executive Office of the President, Office of Management and Budget, Budget of the United States Government: Fiscal Year 1981. In this table, "budget authority" is an estimate of available future borrowing. Outlays are payments made by the Treasury to finance the government's debt in order to finance obligations. Receipts are government collections of taxes, including gift and security taxes. The surplus or deficit is the difference between receipts and outlays. Note that Eximbank shows up in the budget as the only line item in the budget line. Any level of net outlays for Eximbank shows up in the budget as a deficit for that receipt. Thus, in 1981, Eximbank is shown to have added \$2.1 billion to the federal budget deficit.

a federal credit activity. The outlays of Eximbank are primarily related to the rate of change in Eximbank's direct loan obligations and not to the absolute level of loans committed in any given year. Outlays are influenced to a lesser extent by changes in net operating costs (primarily the difference between interest payments received for past loans and interest payable on new borrowings).

The following table shows the actual relationship between direct loan obligations and outlays over a number of years and projections by the Administration through 1987.

This table shows that increases or decreases in direct loan obligations affect increases or decreases in the level of outlays, with a lag of several years. It also shows that a constant level of loan obligations will result in outlays approaching zero (1983-1987). The reason for this is easy enough to understand. Outlays for Eximbank are basically determined by the difference in any year between disbursements on loan obligations and receipts from repayment of principal of Eximbank's prior lending. Thus, assuming other things equal, a constant level of annual loan disbursements should be matched by an equal level of receipts from principal repayments.

To sum up, while Eximbank programs are included in the budget, these programs are federal credit activities. There is no appropriation of taxpayers' dollars, but merely an annual limitation on the amount of obligations Eximbank can enter into. The cost of borrowing is absorbed neither by the federal government nor by the taxpayers, but through repayments of loans by foreign borrowers, interest earnings, guarantee fees and insurance premiums.³

TABLE II

(\$ million)

actual

Direct Loan Obligations	3,813	3,489	1,221	3,425	4,475	4,578	5,431
Outlays	1,504	856	340	100	200	1,836	2,086
estimated							
Direct Loan Obligations	4,400	3,830	3,830	3,830	3,830	3,830	
Outlays	1,855	1,918	1,188	1,385	1,317	647	

An accurate picture of how the Bank operates highlights the fallacy of current efforts to reduce Eximbank's authorizations as a means to reduce the federal budget deficit. Cutting Eximbank's authorizations will not have any effect on federal government expenditures financed from tax receipts. Moreover the small borrowings of Eximbank through the Federal Financing Bank will have no significant effect on interest costs to other borrowers in U.S. capital markets (see section H, p. 14).

The only conclusion that can be drawn is that those who want to reduce Eximbank's operations oppose this type of government activity out of a general predisposition against any government-directed intervention in goods or capital markets, even in the face of foreign government distortions of those markets, and not because of the impact on the federal budget. Unfortunately the reason often given for cutting Eximbank activity is budget stringency -- to cut a "subsidy". This position is not based on a real analysis of the costs to the U.S. economy of failing to offset the foreign government subsidization.

No other country in the world appears to place as little importance on world trade as the United States does. This is perhaps due principally to our geography, our sheer physical size, the distance of most of our trading partners and our wealth of natural resources. The American awareness of trade is largely confined to primary products -- petroleum

imports from the Middle East is the principal example. But our farmers also understand clearly their dependence on world markets for their livelihoods. For manufactured goods, from government policy-maker to average citizen, the importance of export markets is not well appreciated.

Our nation's actual interest in exporting manufactured products has been growing steadily however. In 1980, 13.7 percent of all employment in U.S. manufacturing industries was related to U.S. exports of manufactured products. This accounts for one of every seven manufacturing jobs. (This compares to 10.2 percent only 3 years earlier or one of every ten manufacturing jobs.) During a time of relatively slow growth both domestically and internationally, the total share of U.S. employment related to manufactured exports increased from 3.6 percent in 1977 to 5.0 percent in 1980. Thus 5 million American jobs now depend directly on exports.¹ Those American workers produce over \$150 billion worth of exports each year.

Eximbank has a major role in supporting this essential national activity. A deterioration in the U.S. trade balance in manufactured products would not only further accelerate the erosion of the U.S. industrial base, but would have serious implications for overall employment. A strong export capability is essential to earn the necessary foreign exchange we need to purchase oil and other raw materials in international markets. Export sales allow U.S. manufacturing firms to produce on a more efficient and economical scale, improving their international competitiveness and lowering unit costs to American consumers. This is especially important for large capital goods items where overseas demand, especially in the newly industrializing countries, is growing much more rapidly than in most developed countries.

In FY 1981 the Eximbank authorized \$12.884 billion in

¹ U.S. Department of Commerce, Bureau of the Census, *Origin of Exports of Manufactured Products*, January, 1982, p. 13.



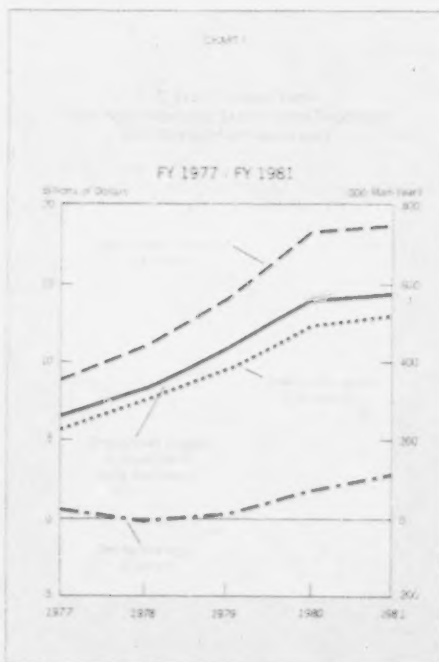
"The American economy is an integral part of the world economy. In 1981 exports and imports of goods and services each amounted to about 12% of the U.S. Gross National Product. We look to foreign trade to sustain and stimulate our domestic economy, to create jobs for Americans, to provide raw materials for U.S. industry and to increase the diversity of goods and services available to the American consumer."

loans, guarantees and insurance which supported a total export value of \$18.769 billion. These export sales were responsible for approximately 580,000 jobs. Over the last five years, from 1977 to 1981, the Eximbank, through total authorizations for loans, guarantees and insurance of \$48 billion, supported export sales of \$71 billion and 2.2 million jobs (see Chart I). This was during a period of record trade deficits for the United States when we imported over \$140 billion more than we exported. Without Eximbank, our international trade position would have deteriorated even more sharply.

These aggregate figures are known or understood by very few people. As is natural, the importance of a national activity is clear only when presented in terms of the impact it has at the local level on jobs and business activity in one's own area. A few examples bring home the importance of Eximbank's lending activities to each of the states. Listed below is the impact of Eximbank's operations in fifteen states over the last five years (see Table III). The full list of states is contained in Appendix A on page 27).

One conclusion that jumps out of this picture is that the importance of Eximbank financing is not confined to any single area or state. Much of the national livelihood and economic well-being is linked closely to Eximbank activities. This will remain the case until international competition in subsidized export credits is curbed sharply. Even then, export finance will remain a critical factor in allowing Americans to sell in distant markets.

Another little known or understood fact about the effects of Eximbank's operations is that the large capital goods exports Eximbank supports, which are typically supplied by large American companies, are produced with components and services provided by hundreds of suppliers all across the nation. As an example, a 2,000 megawatt (enough electricity to light over 33 million 60 watt lamps) nuclear equipment export order valued at \$860 million will involve suppliers in



Source: U.S. Export-Import Bank Annual Report, various issues; U.S. Department of Commerce, Office of Exports of Manufactured Products, MBO (R2) 6, January 1982.

174 cities and 31 states for a company like Westinghouse Electric Corporation (see Appendix B).

Geographic impact is only one aspect of the importance of Eximbank for the nation. Even a cursory analysis of Eximbank activities by industrial sector reveals how vital the Bank is to whole areas of economic activity in our country. Over the past five years, Eximbank has supported almost \$22 billion dollars of exports and 668,000 jobs in the transportation (primarily aircraft) sector. Construction, mining and refining and electric power equipment have also been major sectors receiving export support from Eximbank (see Table IV). These capital goods are technically advanced, of high quality and have a long useful life, often extending beyond 10 years. Associated with such products are highly productive, quality jobs including those for engineers, metal workers, electricians, research scientists, and machinists.

These characteristics of the capital goods sectors -- technically sophisticated products requiring highly skilled, productive workers -- reflect the strengths of the United States' international competitiveness. It is not surprising that the capital goods sector has consistently registered the largest surpluses in the U.S. international trade accounts, averaging \$43 billion annually over the last two years. The only other sector of the trade account showing a surplus was agriculture, again reflecting U.S. comparative advantage in world trade. Chart II illustrates the importance of the capital goods sector in overall U.S. trade. What is particularly noteworthy is that the other major component of U.S. trade in manufactured products -- consumer goods -- averaged a deficit of \$31 billion annually for 1980-1981. Without a strong export performance in the capital goods sector the U.S. would run deficits not only in total trade, but also in trade in manufactured goods.

This brief presentation has shown the crucial importance of U.S. capital goods exports for U.S. jobs and manufacturing production. It is precisely in the capital goods sector that the Eximbank directs almost all of its resources. It is also in this sector that other industrial countries have targeted both their domestic industrial policies and their official export credit support to challenge the United States in international markets.

In 1975 the United States' share of all aircraft exports from OECD countries was 70 percent. By 1980, the latest year for which comparable data is available, the U.S. share had fallen to 53 percent. This reduction in market share was not the result of the "invisible hand" of the market but rather the very visible hand of foreign governments. This 25 percent reduction in market share in just five years was primarily due to the market gains of Airbus Industrie.

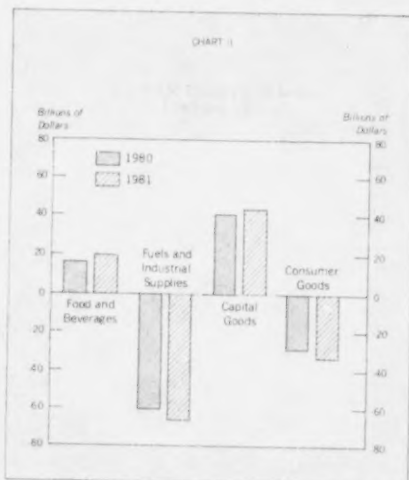
Airbus Industrie is a consortium of predominantly government-owned or controlled enterprises consisting of companies from France (37.9 percent), Germany (37.9 percent), the United Kingdom (20 percent), and Spain (4.1 percent) as full partners, while Belgium and the Netherlands are associates. Government furnished support is provided to the companies in the consortium through a variety of means not available to U.S. companies. This support includes development loans (at low or no interest), infusion of equity capital into government-owned companies and marketing

TABLE III

State	Exports (in millions of dollars)	Imports (in millions of dollars)
California	6,232,076,066	142,569
Connecticut	1,671,550,730	51,665
Florida	848,053,512	26,203
Georgia	2,039,855,771	63,036
Illinois	5,855,763,599	180,950
Massachusetts	1,118,857,467	34,577
Michigan	1,838,526,488	56,866
Minnesota	870,100,410	26,883
New Jersey	1,826,483,664	56,547
New York	12,932,000,000	399,599
Ohio	1,314,907,426	40,634
Pennsylvania	2,811,730,774	86,891
Texas	4,166,943,178	128,729
Washington	11,771,000,000	363,724
Wisconsin	2,906,117,568	89,795
Total	58,293,966,653	1,798,658

Source: See Appendix A.

CHART II



Source: U.S. Department of Commerce, International Trade Administration.

TABLE IV

U.S. Export-Import Bank: Exports, Exports Supported, and Employment by Product Group

FY 1977 - FY 1981
(\$ millions and 1,000 man-years)

		FY 1977 - FY 1981					
		(\$ millions and 1,000 man-years)					
Agriculture	Exports Supported	679.9	616.9	950.2	958.3	759.4	3,964.7
	Employment	21.0	19.1	29.4	29.6	23.5	122.6
Communication	Exports Supported	276.3	316.1	417.9	950.7	968.4	2,929.4
	Employment	8.5	9.8	12.9	29.4	29.9	90.5
Construction	Exports Supported	1,922.9	1,650.1	2,116.2	2,136.4	2,072.1	9,897.7
	Employment	59.4	50.9	66.9	66.0	64.0	307.2
Electric Power	Exports Supported	716.4	1,611.9	1,308.2	2,065.1	1,257.9	6,959.5
	Employment	22.1	49.8	40.4	63.8	38.9	215.0
Manufacturing	Exports Supported	685.7	660.6	762.0	1,011.3	1,347.4	4,466.9
	Employment	21.2	20.4	23.5	31.2	42.5	138.8
Mining and Refining	Exports Supported	705.7	2,472.7	1,295.1	1,078.6	1,615.4	7,167.5
	Employment	21.8	76.4	40.0	33.3	49.9	271.4
Transportation	Exports Supported	2,427.2	1,932.4	4,662.2	6,362.4	6,235.5	21,619.7
	Employment	75.0	59.7	144.1	196.6	192.7	668.4
Other Products	Exports Supported	342.2	435.7	403.1	483.9	513.6	2,178.5
	Employment	10.6	13.5	12.5	14.9	15.9	67.4
Miscellaneous Credits	Exports Supported	1,096.4	1,204.6	2,097.5	3,390.3	4,059.4	11,848.2
	Employment	33.9	37.2	64.8	104.8	125.4	366.1
Totals	Exports Supported	8,852.7	10,901.0	14,012.4	18,436.9	18,829.2	71,032.1
	Employment	273.5	336.8	432.9	569.7	581.8	2,194.9

Source: U.S. Export-Import Bank, "Authorization Distribution Analysis by Product Group."

support and subsidies. However such government support also extends to sales of aircraft overseas, the major market for the output of the Airbus consortium. The official export credit agencies of France, West Germany and United Kingdom have all provided extensive support for export sales of Airbus. This export credit support was a crucial factor in the rapid expansion of the export market share of Airbus for wide-body aircraft.

What is important to understand, in the context of this paper, is the connection between industrial policies and

international trade. Industrial policies are made by national governments. Yet most of the industrial sectors they affect, like the aircraft industry, are international in nature. National political decisions taken by some governments to promote and foster certain of their domestic industries affect the domestic industries of other trading partners and competitors. The decision of Lockheed to phase-out production of the L-1011 aircraft is directly related to the growing market share of the European government-backed Airbus Industrie. These international effects become the

much more widespread and disruptive when the industrial policy objectives are actively supported by subsidized export credit assistance. In effect, this subsidized export support is a vital component of implementing industrial policy decisions in those industrial sectors which are highly internationalized.

Industries affected by such policies include not only aircraft, but also power generating equipment, telecommunications systems, heavy industrial and construction machinery, and other technically sophisticated capital goods. The major economic issue to consider is what is the net effect of foreign government policies on the U.S. economy. How many large electric power plants, aircraft sales and huge telecommunications projects does the United States lose to foreign competitors before U.S. industry is no longer at the leading edge of technology, production efficiency and international competitiveness? This is a subject for further research, but these questions are best answered by the managers and workers of those American firms who are currently in face-to-face competition with foreign companies backed by subsidized export credits. With respect to export credit policy, the United States should not allow the erosion of vital manufacturing industries to occur because of the unfair export credit practices of its major competitors. This entails a recognition that a key part of the implementation of the industrial policies of our international competitors is through their export credit programs.

U.S. GOVERNMENT WITH POLICY TO REDUCE THE ECONOMIC COST OF EXPORT CREDITS

The mayors of Seattle and Wichita and those from Tampa and Lester, Pennsylvania, know about the importance of exports to their economies. They know what the absence of competitive financing terms from Eximbank means to local employment and the vitality of their regions. Why don't the

decision-makers in Washington have this understanding? In an effort to reduce federal expenditures, borrowing and government involvement in the economy, serious consideration has not been given to the implications of cutting back on Eximbank's operations.

The Office of Management and Budget (OMB) in its fiscal year 1983 budget submission provides the following rationale for reducing Eximbank's direct lending authority:

"The changes support the Administration's policy to reduce federal subsidies that distort market forces. Such changes are needed because:

- The cost of interest subsidies on long-term loans is substantial; subsidized export credits transfer resources from domestic taxpayers to exporters or the foreign borrower.
- Subsidies distort trade and investment, result in a low rate of return on invested capital, and worsen the terms of trade, particularly in the short term.
- Economic gains to the general public have not been identified or measured in any rigorous manner.
- Claims that subsidized exports generate additional employment, income and Federal revenue while reducing expenditures for social programs fail to consider that credit diverted to exports must come at the expense of other sectors which will experience offsetting losses."

These sentiments, to be found in any introductory economics textbook, are not an adequate guide to running a government. A "hands off" philosophy need not be accompanied by having an "eyes closed" policy with respect to what other governments are doing. Economic philosophy must at least be tempered by the facts.



"When an American company loses an export sale because of subsidized export financing provided by a foreign government, it is not only that company and its workers who lose. The cumulative effect of such losses will mean permanent damage to our country's industrial base. Lost sales and market shares will, over an extended period of time, result in a U.S. manufacturing capability that is less efficient, less technologically innovative, and less internationally competitive. It is in this sense that a financially competitive Eximbank is truly in our national interest."

Executive Office of the President, Office of Management and Budget, Major Themes and Additional Budget Details, FY 1983, p. 124.

The OMB discussion cited above makes no reference to the existence of international competition in official export credits. With this omission the authors may be concluding that foreign government distortions of international markets are either of minor consequence to the U.S. economy, or do not require a response by the United States government. The apparent attitude is that international economic events are not important in the formulation of U.S. international economic policy.

Foreign governments are, however, distorting international markets through the use of subsidized export credits. These practices are having significant effects on the U.S. economy. No one can accurately quantify total damage or list all the export sales lost to the United States because of officially subsidized export credits extended by foreign governments. This is because of the difficulty involved in obtaining comprehensive information on all the export transactions affected and in assessing the relative



"A competitive and amply funded U.S. Export-Import Bank is essential to the American heavy electrical equipment industry's ability to compete for large job-producing export orders and maintain its productive capabilities and technology. This is especially true now. While purchases by domestic utilities are declining, opportunities for exports to developing countries are expanding. Many Third World nations plan extensive electrification programs and initial orders will materially affect later purchasing decisions.

"Large export orders for capital equipment will enable companies such as my own to maintain a workforce of highly skilled engineers and production workers as well as the research and development needed to assure our continued technological competitiveness. Such orders will also help maintain production facilities that can meet our country's needs for strategic materials and products to protect our national interests.

"Westinghouse is eager to compete for export orders on the basis of price, quality, technology and service. But the deciding factor of purchase for some Third World customers is often strongly influenced by the financing offered on large projects. The government-subsidized, cut-rate terms and interest rates of export loans offered by our competitors in Europe and Japan often swing the business in their favor. Westinghouse can compete against any other company in the electrical equipment business but it can't compete against the financial resources of other countries.

"A competitive U.S. Eximbank backed by sufficient direct loan resources is the best way to deter other countries from using predatory financing as a means of winning big export orders and the best way to open up burgeoning new world markets for American companies and their employees."

importance of the numerous factors which determine the competitiveness of each transaction.¹ There is the added difficulty that many companies are reluctant to be publicly identified with respect to individual transactions they have lost due to foreign official export finance for fear of jeopardizing future business.

Despite the difficulties of gathering accurate and complete information, nine export transactions which were lost in 1981 and one transaction that remains in jeopardy because of subsidized financing by other governments have been identified by questioning just a few major American companies about their experiences (see Appendix C). These 10 cases would have resulted in over \$1 billion in U.S. exports representing almost 35,000 man-years of employment.

The Machinery and Allied Products Institute (MAPI) just published the results of a survey of 39 multinational companies concerning instances during 1981 in which they sourced from a foreign subsidiary or other foreign affiliate in order to obtain competitive financing.² Of the 39 companies surveyed, 14 companies reported that 39 transactions with a dollar value of \$386.7 million had been shifted to foreign affiliates primarily, if not exclusively, because of more competitive financing available to the foreign affiliate from the host government.

The MAPI survey results and the ten cases listed in Appendix C represent lost U.S. exports totaling over \$1.5 billion and representing over 46,000 U.S. jobs. These examples do not represent a comprehensive inventory of all export transactions lost or sourced from a foreign affiliate in 1981 because of more competitive export financing available from foreign governments.³ The data does indicate that at a time when Eximbank considered itself to be "competitive" a significant number of export transactions were still lost due to more competitive financing provided by other governments.

However, given the current and proposed future reductions in Eximbank authority, the Bank no longer considers itself competitive. The president of the Eximbank, Mr. Draper, in testifying on November 2, 1981 before the Trade Subcommittee of the House Ways and Means Committee, said the following when asked by Congressman Frenzel if Eximbank was competitive:

"No, we are not competitive. The numbers I gave you of cases won and lost was, as I pointed out, historical. I think you will find our competitiveness has deteriorated in the last year because of high interest rates that we are paying, and our inability to go down to the depths that our foreign competition have gone in reducing their rates to predatory numbers."

These remarks and data suggest that if current U.S. policy is not reversed concerning Eximbank financing, lost

U.S. exports and jobs will continue to increase. In 1981 the operating authority for Eximbank's direct loan program was 42 percent higher than that currently proposed for FY 1983. Even in 1981 the Eximbank in many cases did not have the lending authority or operating policy to match the export financing terms of our major competitors. The reduction in the level of operating authority for Eximbank in FY 1982 and further reductions in FY 1983 will mean that the lost U.S. exports and jobs will be much larger than those lost in FY 1981.

Are Eximbank's activities distorting trade and investment, as OMB suggests? It is true that in some cases Eximbank is currently making loans below U.S. market interest rates and below the Eximbank's current cost of funds. But it is doing this in response to foreign competition. Its statutory mandate is to "provide guarantees, insurance, and extensions of credit at rates and on terms and other conditions which are competitive with the Government-supported rates and terms and other conditions available for the financing of exports from the principal countries whose exporters compete with the United States exporters." To call such interest subsidies distortions of market forces misses the point that the origins of the distortions are foreign government export credit programs. Eximbank's efforts are an attempt to offset the distortions so that U.S. companies and workers do not unfairly suffer because of these foreign financing practices. Obviously the ideal solution -- and one which U.S. negotiators are currently seeking -- is to eliminate such direct export credit subsidies altogether. But this must be accomplished on a multilateral basis, otherwise the costs to the U.S. economy will be disproportionately high compared to any expenditures that may be required to continue to match foreign export credit subsidies.

To conclude that Eximbank is causing market distortions, assumes that foreign governments' industrial policies have no impact on the U.S. economy. When Eximbank is able to match the rates and terms of foreign export credits, which it is increasingly unable to do, it is removing distortions from the market.

Of the points that OMB makes, two arguments against an aggressive Eximbank policy of matching foreign export credit subsidies deserve to be addressed here: (1) that Eximbank efforts really result in no additional exports beyond those which would have been made with private credits, and (2) the argument that Eximbank activities divert domestic capital from its most productive uses by crowding out other borrowers and by raising interest costs to those who do obtain credit. Neither of these arguments appear to be supported by substantial evidence.

IS THERE A LIMITED PROPORTION OF EXPORT SALES SUPPORTED BY EXIMBANK FINANCING?

"Additionality" is a concept which attempts to define the effectiveness of Eximbank's operations. The additionality of Eximbank's programs is the proportion of export sales supported by the Export-Import Bank which would not have been made without Eximbank assistance. A very high rate of additionality would indicate that Eximbank support for export sales is necessary to offset foreign financing practices and imperfections in private capital markets for export financing. A low proportion would indicate that Eximbank support is not

¹ These factors include: price, financing, quality, engineering, design and technical specifications, reputation and dependability of delivery, and after sales service. However, concerning products of generally similar characteristics, price and financing are normally the more important factors and the ones that are most easily quantifiable.

² Machinery and Allied Products Institute, MAPI Survey of Selected Member Companies Concerning Export Financing, March, 1982.

³ The MAPI survey also reported that nine companies volunteered that they had lost \$1.0 billion in sales and had not lost on \$2.8 billion of potential future sales due to lack of competitive export financing. This data was not used because there was no way to independently verify that financing was a major factor in the \$1.0 billion lost exports.



CHARLES H. WINGO
President
EXPORT-IMPORT BANK OF THE UNITED STATES

"Today, almost 20 percent of the workers in this country making electrical and electronic equipment depend upon export sales for their jobs. We cannot afford to endanger the loss of these job opportunities because foreign companies receive subsidized export financing from their governments."

really necessary, since most of the export sales would have been made without Eximbank support.

Critics of the Export-Import Bank have stated that Eximbank programs do not give rise to additional U.S. export sales — that the additionality of Eximbank support is very low. However, while additionality is a difficult concept to measure, two studies by the Treasury Department have estimated the additionality of Eximbank's programs to be very significant, especially for the direct credit program.¹ For FY 1978, Treasury estimated that the overall additionality of all Eximbank programs was 66 percent, while that for direct loans was 72 percent. This means that three quarters of the transactions supported with Eximbank direct loans would not have been made without Eximbank financing. The report stated:

"... the conclusion can be reached that, overall, Eximbank Bank activities in FY 1978 were successful: (1) in overcoming alleged imperfections of private capital markets for financing exports; and (2) in meeting threats of foreign official credit competition. The direct credit program — which from a budgetary view is the most important Eximbank program — appears in Treasury's analysis to be highly additional, especially where commitments involve the greatest contract values for U.S. exports."

Despite the high additionality of the direct loan program, primarily because of its effectiveness in offsetting foreign export credit competition, the Administration is attempting to reduce the size of the program by 30 percent for FY 1983 compared to FY 1981.

Another way to assess Eximbank's additionality is to examine what happened when Eximbank direct loan authority was reduced from \$3.4 billion in FY 1976 to \$1.2 billion in FY 1977. The dollar export value of applications denied in calendar year 1976 totaled over \$7 billion, primarily for capital goods. Eximbank's staff has found that only 10

percent of these sales went through after having been denied assistance by Eximbank because of lack of loan authority.

IN THE U.S. EXPORT CREDIT PROGRAM AND THE CONCERN WITH THE DIVERSION OF CAPITAL

The second major argument commonly used to criticize the operations of the Export-Import Bank is that of diversion of capital to less efficient uses. This argument, used in the OMB document cited above, states that Eximbank borrowings in private capital markets result in a diversion of credit from more productive uses and bid up the cost of funds to those borrowers who are not "crowded out."

In fact, total Eximbank borrowings through the Federal Financing Bank (FFB) are so small relative to total borrowings in private capital markets that the cost and availability of credit to other users is not measurably affected. From 1977 to 1981, total funds raised in domestic credit markets totaled \$1,655.4 billion. During the same period, Eximbank net borrowings through the FFB were \$4.3 billion, or 0.26 percent of total borrowings in domestic credit markets. The operations of the Eximbank would have to be many times the current or historical level before it began to have an influence on either the availability of credit or the cost of borrowing in domestic capital markets.

Again, it is useful to keep in mind that many of the criticisms of the Export-Import Bank are based upon an idealized conception of domestic and international markets for goods and capital. They ignore distortions caused by foreign governments attempting to increase their country's world market shares, not on the basis of price and quality, but through subsidized export credits. They also ignore imperfections in international capital markets that limit the availability of export finance from private sources, especially for large capital goods transactions. These imperfections will only be overcome through government actions to reduce the risk and uncertainty to all participants. Part of this process is the maintenance of competitive U.S. official export financing.

¹ U.S. Department of the Treasury, United States Treasury Report on the Additionality of the Export-Import Bank Programs as Fiscal Year 1978, January 1980. A study was performed for FY 1979 and showed similar results.

Intensification of Competition in Officially Supported Export Finance

"The growing commercial rivalry among the developed countries and the growing similarities in price, quality and availability of their goods has meant that, in many cases, government financing arrangements have become the determining factor in many trade transactions. In the capital goods sector and the market for 'big ticket' items in particular, it now appears that the contract goes to the exporter who is able to arrange the best financing for his sale."¹

This was the conclusion reached by the Congressional Research Service in its 1978 study of export promotion programs in the major industrial countries. This statement remains accurate today, but the "commercial rivalry" it cites based on government supported export credits has since intensified dramatically. This growing beggar-thy-neighbor competition is reflected in the rapid growth of both the quantity of exports receiving official support and the degree of subsidy being provided.

Export sales receiving export credit support have been increasing more rapidly than exports in general (see Table 1). At the same time the amount of direct subsidization provided by official export credits has grown even faster. The result has been that in recent years a higher percentage of total OECD exports have been receiving official export credit

support along with a greater degree of direct subsidization.

The stakes of the game have risen while the costs of playing have also increased markedly. Why has this occurred? There are two major reasons: the continued slow growth and increasing unemployment in the OECD countries, and the rapid increase in interest rates.

The growth of real GNP in the OECD countries increased at an average annual rate of 3.5 percent between 1969 and 1979. However the western developed economies have now lost momentum. In 1980 growth was only 1.2 percent, and only 1.0 percent in 1981. The OECD is currently estimating that growth in 1982 will decline to about 0.3 percent. The slow growth has resulted in higher unemployment in the twenty-four nation OECD area. Unemployment increased from 5.5 percent in 1979 to approximately 7.25 percent in 1981 and is projected to exceed 8 percent in 1982. These unemployment levels reflect 21.4 million workers unemployed in 1980, 25 million in 1981 and 28.25 million in 1982. High unemployment makes exports far more important than they normally are, and many governments of the OECD countries have increased their export credit subsidies accordingly.

A second factor has also caused a substantial increase in the level of subsidies. Short- and long-term interest rates rose dramatically from levels prevailing in 1979, so that by 1981 the cost of credit in most OECD countries had increased by 4

¹ Congressional Research Service, *Export Subsidization Programs in the Major Industrial Countries* (Washington, 1978), p. 40.

TABLE V OECD Arrangement on Guidelines for Officially Supported Export Credits Subsidy on Credits Outstanding at End of 1979 and 1980			
	1979	1980	% of 1979
Export Sales Supported ¹ (\$ billion)	144.6	176.7	22.2
Subsidy on Credits Outstanding (\$ billion)	5.5	7.3	32.7
Total Exports (\$ billion)	1049.0	1240.0	18.2

1. Data available for only Canada, France, Germany, Italy, Japan, United Kingdom, United States.

Source: U.S. Export-Import Bank, Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, various issues; U.S. Treasury Department and Organization for Economic Cooperation and Development, OECD Economic Outlook (December 1981), 30. The subsidy estimates were derived by the OECD by multiplying official credits outstanding by the difference between yields on government bonds for a given country and the minimum interest rate in the OECD Arrangement. The subsidy estimates for 1980 and based on credits outstanding at the end of 1979 and those for 1981 are estimated from credits outstanding at the end of 1980.

to 6 percentage points over 1979 levels. In the context of official export credits, the rapid increase in interest rates has meant that the cost of funds for almost all the official export credit agencies has been well above the minimum interest rates -- the floor below which loans may not be extended -- provided for in the OECD Arrangement on Guidelines for Officially Supported Export Credits. This situation permitted, or some might say resulted in, a high degree of direct interest subsidization by some countries. Other countries have then had to either match the subsidized financing offers or risk potential loss of jobs and exports. This competition has substantially increased the cost of the export credit programs of all of the participants in the Arrangement.

OECD Arrangement on Guidelines for Officially Supported Export Credits

International competition based on official export credits reflects the high degree of importance most industrial countries give to export markets for their capital goods sectors. Export markets are important, not only to maintain industrial employment, but also to participate in the growth of world demand for capital goods. In addition, most capital goods production is characterized by economies of scale in production. Therefore the development of world markets is essential, not only to reduce costs and domestic prices but to maintain international competitiveness.

A major component of the industrial policies of most governments is their official export credit program. Export credit support, even on a subsidized basis, is seen by many

governments to be one of the most effective means available to them to provide assistance to particular industrial sectors. Japan and most of the countries of Europe have government directed programs, including fiscal and financial incentives, to develop high technology industrial sectors that they consider important to their overall social and economic objectives. After what can be years of government fiscal and financial assistance, the success of a particular industrial policy may hinge on the ability of the industry concerned to sell in international markets and increase its market share. This is especially true for large capital goods where the economies of scale involved with additional export sales can lower a firm's unit costs substantially, improve profitability and increase its international competitiveness. Therefore the fact that many of the major competitors of the United States support their exports much more actively than the U.S. is, in this sense, not surprising.

What perhaps is more surprising is the continued lack of appreciation by U.S. economic policy makers of the current and long term effect of the industrial policies and export support practices of Europe and Japan on the U.S. economy and U.S. international competitiveness. There is little evidence that a blind reliance on market forces alone -- and the willingness to unwittingly accept the consequences of the industrial policies of other governments -- is an adequate basis for the conduct of international economic policy today. For even if the United States were to pursue a consistent *laissez faire* course, we would find ourselves faced with the continued pursuit of industrial policy and export promotion

TABLE VI Developed Country Export Market as a Percentage of U.S. Exports by Sector, 1979 and 1980		
	1979	1980
Aircraft	69.7%	52.9%
Construction, Mining and Other Specialized Industrial Machinery	27.1%	22.0%
Electric Power Machinery and Generating Equipment	18.7%	17.9%
Machine Tool and Metalworking Equipment	15.1%	12.8%
Telecommunications Equipment	13.6%	15.9%

Source: Organization for Economic Cooperation and Development, OECD Trade Statistics, Series C. Developed country export market is the sum of all OECD country exports in the particular sector in a given year.

measures in other countries which would produce what would be regarded as unfair competition and trade distortion requiring retaliation or justifying protection.

Official export credit programs of most of the western industrialized countries are a means to extend domestic industrial policies to world markets. The effects of these programs and policies can be clearly seen by examining U.S. export market shares in those capital goods sectors where official export support is most pronounced. Between 1975 and 1980 the United States suffered a decline in export market share in four of five major capital goods sectors (Table VI). No single factor can wholly account for these market share reductions. However, among the most significant factors would have to be the industrial policy and export financing practices of the major industrial countries of the west. It can therefore be assumed that further reductions in Eximbank support for U.S. capital goods exports will help to accelerate these market share reductions unless agreement is first reached to halt the unfair competition from officially subsidized export credits.

Subsidized export credits have been a long standing international problem. However, the magnitude of the trade being affected and the amount of subsidization being provided today make the issue a major international trade problem that far exceeds the degree of seriousness this issue had even 10 years ago.

There exist a number of major problems in any negotiations dealing with official export credits. First of all, because most of the major export credit agencies use

different financial techniques in providing subsidies, the impact of the subsidies varies from one country to another. Also because of the diversity of domestic economic and financial systems and institutions in the OECD countries and differing trade patterns, it has proven difficult to fashion rules that do not appear to favor one country more than another.

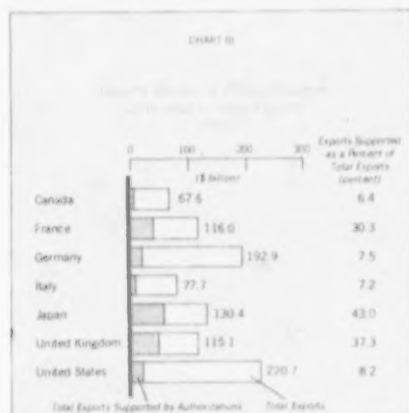
However, the fundamental problem has been political in nature. A number of countries refuse to give up their "freedom" to seek a competitive advantage for their products in international markets by offering below-the-market credit terms. But when other countries match the subsidized credit terms, nothing is gained, because their relative competitive position is unchanged. Yet these countries persist out of the conviction that all of their subsidies won't be offset by other countries and that the cost of any subsidies to the government are more than offset by the benefits of expanding exports of capital goods and other industrial products.

The differences in national approaches to official export credits is indicated in Chart III. In 1980 France, Japan and the United Kingdom all provided official credit support for more than 30 percent of their exports while Canada, Germany, Italy and the United States provided support for less than 9 percent of total exports. Chart IV presents the distribution of annual subsidy costs as estimated by the OECD. France, Japan and the United Kingdom are still the major subsidizers, but the different ranking compared with total exports supported reflect differences in domestic interest rates in the various countries and past commitments for export credit. For example, in 1980 Japan supported \$56.1 billion in exports and France \$35.2 billion. Yet France was estimated to have an annual subsidy cost of \$2.342 billion and Japan of \$566 million. This reflects both lower borrowing costs in Japan and a larger amount of outstanding credits on the part of France.

Efforts to achieve international control of export credits in the past 50 years — specifically to eliminate the wastefulness involved in competitive subsidization — have not proven very successful.

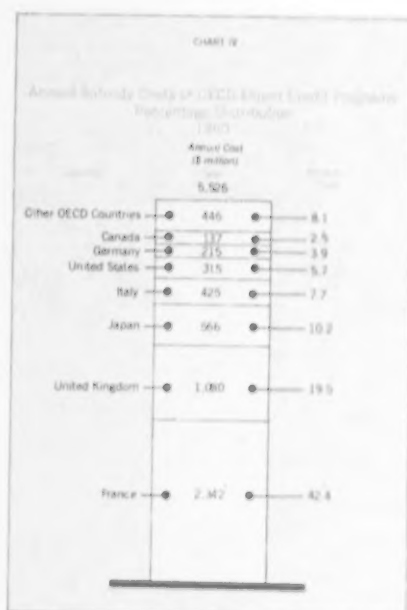
The first attempt to form some general rules regarding export financing took place in 1934. The British government's Export Credits Guarantee Department (ECGD) and three private companies in France, Italy and Spain established the Berne Union (Union d'Assureurs des Crédits Internationaux) to "secure international acceptance of sound principles of export credit insurance, and the establishment and maintenance of discipline in terms of international trade."

The Berne Union was never able to exert effective control over what came to be an expanding competition in export credits, primarily because it was a non-governmental organization. However government negotiators have not been that much more successful in controlling the competition.



Source: U.S. Export-Import Bank. Report to the U.S. Congress on Export-Credit Competition and the Export-Import Bank of the United States (October 1981) and Economic Report of the President (February 1982).

The governments of the OECD countries became involved in discussions concerning export credit policy in 1963. A Working Group on Export Credits and Credit Guarantees was instructed to evaluate national policies relating to export finance and insurance, examine the problems which arise and seek to relieve or mitigate these problems by multilateral discussion and cooperation. Through a long series of difficult negotiations and



Source: OECD, Arrangement on Guidelines for Officially Supported Export Credits, Implications for the Arrangement of Officially Supported Export Credits, Annex II, Table 1 (April 1985) based on credits outstanding at the end of 1983.

compromises, reflecting in part differences in approach mentioned above, agreement was reached on the text of an Arrangement on Guidelines for Officially Supported Export Credits which was accepted by all 22 members of the OECD Working Group on Export Credits in May 1978.

The Arrangement provided that the minimum down payment for any export credit be 15 percent. In addition the following minimum interest rate matrix was established:

The relatively rich countries are all the OECD countries except Greece, Portugal, Spain and Turkey and the capital surplus oil exporting countries. The intermediate countries are the East European countries and Greece, Portugal, Spain and Turkey. The relatively poor countries are all other countries not in the first two categories.

The minimum interest rates and maximum repayment terms set out in the Arrangement matrix are only guidelines. The Arrangement has provisions for a country wishing to offer lower rates or longer terms for an individual sale. The term "derogation" is used in the Arrangement to refer to behavior that follows certain agreed upon procedures when a country

wishes to act in a manner which is not in conformity with the export credit guidelines, but seeks to avoid being in breach of the Arrangement. Where derogation occurs, a country offering terms which depart from those required by the Arrangement notifies the other participants of the terms it intends to offer at least ten days before issuing any preliminary commitment. This advance notice allows other participants to discuss the issue with the initiating participant and to offer terms matching those of the derogation or to introduce a new derogation.

Classification of Country	Number of Years in Repayment Term		
	2 to 3	3 to 6.5	6.5 to 10
Relatively Rich	7.75%	8.00%	N/A
Intermediate	7.25%	7.75%	N/A
Relatively Poor	7.25%	7.50%	7.50%

One result of experience under the Arrangement has been that the minimum interest rate levels established have also become the de facto maximum rates. Countries are aware that any offer above the minimum rate will not be competitive. Thus the Arrangement has in effect established a ceiling as well as a floor with respect to interest rates and repayment terms.

Certain categories of exports were excluded from the Arrangement. These included military equipment, agricultural commodities, aircraft, nuclear power plants and those ships covered by the OECD Understanding on Export Credits for Ships which was agreed to in 1974. Less formal "standstills" had previously been agreed to for aircraft and nuclear power plants. For example, the OECD Standstill Agreement concerning civil aircraft signed in 1975 specified the following conditions: no more than 90 percent of a purchase may be financed, and the specified maximum credit length was 10 years for large jet aircraft, 7 years for turboprop aircraft and helicopters and 5 years for other subsonic aircraft. No reference was made in the aircraft agreement to interest rates.

Assessments of the Arrangement vary among the different participating countries. France has expressed the greatest satisfaction with the Arrangement. This is the result of the fact that the provisions and coverage of the Arrangement correspond to the policy and institutional arrangements of French government support for export finance. This has not been the case for the United States, which has been the country that has most aggressively sought changes in the Arrangement.

There are four major flaws in the Arrangement which limit its effectiveness as a deterrent to subsidized international export credit competition. The first is that the minimum interest rates are fixed and it is extremely difficult to have them changed through negotiations. They therefore

do not reflect changes in domestic and international money markets. That is why in the face of increasing market interest rates the subsidy element in export credits has increased substantially since the Arrangement took effect in 1978. This flaw in the Arrangement obviously favors countries like France which do not place budgetary restrictions on their export credit program.

The second problem or flaw is that the interest rates established by the Arrangement are identical for all currencies. This has created competitive advantages and disadvantages for various countries depending on differences in domestic rates for the various currencies. For example, if the minimum rate in the Arrangement is 10 percent, then official export credit agencies whose country has domestic market rates which are below 10 percent must either charge a premium over domestic rates or not extend credit. However, for export credit agencies in countries with domestic market rates above 10 percent, the Arrangement allows direct subsidization of interest rates in those currencies.

Setting the same interest rate for all currencies in the Arrangement also allows unfair subsidized competition in the domestic markets of the countries who are party to the Arrangement. As an example, assume again that the minimum rate is 10 percent. If domestic commercial yen rates in Japan are 8 percent while in the United States dollar rates are 14 percent, then Japanese firms could compete in the U.S. market with export financing of 10 percent in dollars (by obtaining yen at 8 percent and converting them to dollars at 10 percent, assuming the exchange risk was covered by the additional 2 percentage point premium over the yen rate).

U.S. firms, which would only be able to put together a financing arrangement at 14 percent, would be at a severe disadvantage. Yet, under the current Arrangement, such transactions are permitted. The solution is to have credits extended that reflect the commercial rate of the currency in which the credit is being extended. Credits offered in dollars should be at 14 percent while those offered in yen should be at 8 percent.

A third problem is that the only method of recourse available through the Arrangement is the authorization to match the interest rates and terms of a competitor. The Arrangement has no enforcement mechanism or penalties. If a participant doesn't have financial resources needed to match the terms of the derogating party, there is nothing further that can be done. Again, this state of affairs favors countries with no budgetary limits on their programs.

Finally, the Arrangement has no mechanism to deal with the problem of subsidizing the expansion of world capacity in industrial sectors already characterized by severe excess capacity. Competition to increase exports of industrial machinery has led the major OECD countries to provide subsidized financing for steel and textile plants in other parts of the world. These are industries which are already characterized by significant overcapacity and it is quite likely that new plants would not have been constructed if financing had been available only at market rates and market terms.

The United States negotiators have been aggressively pursuing changes in the Arrangement to correct these flaws. The U.S. objective is to establish a differentiated rate system where the basic minimum interest rate for each currency would be determined by its market rate of interest. Progress toward this objective has been extremely slow, with opposition from the EEC and France in particular. Limited success has been achieved in the form of increases in the minimum rates on two occasions since 1978, first in May 1980 and, more recently, in November 1981. The current rates are presented below, with the May 1980 rates given in parentheses.

Classification of Countries	Number of Years in Arrangement Term		
	2 to 5	5 to 9.5	9.5 to 10
Relatively Rich	11.00% (8.50%)	11.25% (8.75%)	N/A
Intermediate	10.50% (8.00%)	11.00% (8.50%)	N/A
Relatively Poor	10.00% (7.50%)	10.00% (7.75%)	10.00% (7.75%)

Because market rates in Japan are below the new minimum rates, a special minimum rate was established to apply to the yen and other currencies (like the Swiss franc) with market rates of interest below the new minimum rates. The November 1981 agreement states that with respect to any currency whose commercial rate is below the minimum, export credit agencies may charge commercial rates in that currency, provided the export credit agency does not charge less than 9.25 percent.

The United States is also trying to improve the Standstill Agreements pertaining to aircraft and nuclear power plants. An interim agreement was reached in August 1981 between the United States, France, Germany and the United Kingdom to set a minimum interest rate of 12 percent for commercial jet aircraft sales to countries other than the parties to the agreement. A major factor in obtaining agreement was the U.S. threat to derogate from the 10-year term set by the 1975 OECD standstill agreement and extend loans with longer maturities. This interim arrangement will last until October 1982. In the meantime, the participants are exploring ways to improve the financing of aircraft sales in private capital markets. Discussions began in March 1982 with respect to improving the standstill agreement pertaining to nuclear power plants.

Despite these U.S. efforts to improve international discipline with respect to subsidized export credits, an arrangement that effectively curtails competition utilizing subsidized official financing has not yet been achieved. However, a series of international negotiations to eliminate subsidized export credits have been set in motion that could yield important results if the momentum can be maintained. Ultimately, success or failure will depend heavily on America's "domestic" decisions taken in the coming year with regard to U.S. export credit policy and the U.S. Export-Import Bank.

See U.S. Department of the Treasury, Office of Trade Finance, *Financial Guidelines for Long-Term Export Credits* (November 11, 1981) and *Commercial Guidelines for Short-Term Export Credits* (January 1982). The International Export-Import Bank (IEIB).

The export credit policy of the United States is at a crossroads. On the one hand, U.S. negotiators have made significant progress in the past year in setting the stage for the possible elimination of the beggar thy neighbor practice of competitive subsidization of official export credits. On the other hand, the Administration is engaged in efforts to reduce rapidly the direct loan authority of the U.S. Export-Import Bank by 30 percent in two years. These efforts undermine the possibility of negotiating a successful international agreement. Reducing Eximbank's ability to respond to foreign subsidized export credits offered by other countries not only costs the United States jobs and exports, but also takes away the ability of Eximbank to combat such action. These lost exports and jobs will mean future loss of international market shares and further erosion of the industrial base of the United States.

The analysis presented in this paper demonstrates the importance to U.S. firms and workers of maintaining a strong and financially competitive Eximbank until U.S. negotiators achieve their objective of an international arrangement that effectively eliminates the competitive subsidy element in official export credits. The first small steps which have been achieved by our negotiators in Paris toward such an effective international arrangement must not be jeopardized by an "eyes closed" policy here at home. U.S. export credit policy must be based on a realistic assessment of the trade

distorting practices of foreign official export credit agencies and the long term economic interests of the United States.

Maintain a Financially Competitive Eximbank

The foundation of U.S. export credit policy in the near-term must be based on a financially competitive Eximbank that has adequate lending authority to ensure that no U.S. exports or jobs are lost solely because of subsidized export credits provided by foreign governments. The decision taken by the Administration to seek reductions in Eximbank's obligational authority for FY 1983 must be reversed. Moreover, the level of obligational authority set for FY 1982, a reduction of 19 percent from FY 1981, must be reevaluated in the light of current international competition and the number of export transactions being lost to foreign subsidized export credits.

The policy of the Eximbank must be to use the authority Congress provides it to assist U.S. exporters in meeting international competition based on officially subsidized export credits. If market interest rates remain high and other countries continue to subsidize, Eximbank may require special appropriation to continue to match its competitors. Because Eximbank's accumulated income must also be a reserve against loan defaults and claims, it cannot continue to use its accumulated income to underwrite direct loans without jeopardizing its financial future and self-sustaining status. Therefore serious consideration should be given to legislative proposals such as those introduced by Congressman Neal (H.R. 3228) and Senator Heinz (S. 868)

¹ See Appendix 1.

that would authorize an appropriation of \$1 billion for a competitive export subsidy fund if satisfactory progress is not made in the export credit negotiations. The fund would be used to directly subsidize interest rates on private export credit in order to induce our competitors to negotiate an end to subsidized export credits.

Seek International Acceptance of an Export Credit System Based on Market Rates and Market Terms

U.S. negotiators should aggressively pursue the objective of eliminating the subsidy element in official export credits. The goal of international negotiations in the OECD should be a system based on market interest rates and repayment terms (tenor) where the primary function of official export credit agencies would be to provide guarantees and insurance when needed to overcome imperfections in international capital markets. A system based on market rates and market tenor in the currency in which the official export credit is denominated would allow no direct interest subsidy. Capital goods exports would then compete in international markets on the basis of price and quality, not on subsidized rates for official export credits. A necessary requirement for an official export credit arrangement based on market rate and tenor is that any official export credit agency should have access to financing in any of the other participant's currencies. This would deal with the potential problem posed by large interest rate differentials in various currencies where countries with lower domestic interest rates could provide export credits at rates below those countries with higher domestic interest rates.

While the major negotiating effort should be directed at obtaining a market-oriented system of export financial support, other issues will have to be addressed. These include the issues of enforcement and the treatment of mixed credits (a package combining export finance and development assistance grants which makes the interest cost of the "mixed" package substantially less than the market rate). It may be that the best way to deal with the

enforcement issue, once agreement on a market-based system is attained, is to bring the Arrangement under GATT auspices. Currently the Arrangement is exempted from coverage under the subsidies code.

There are obviously substantial difficulties to overcome in perfecting such a system for the OECD Arrangement. A major technical problem is that private capital markets have not adequately developed means to finance all the types of substantial capital goods transactions which occur in international markets. Far larger transactions, such as electric power plants and commercial aircraft, separate arrangements tailored to the particular circumstances of the category of the product involved are being negotiated (see New Financing Mechanisms).

Ultimately the issue is one of attaining a political consensus among the competing countries. This is the main reason why the U.S. Export-Import Bank must not be curtailed in any way if the objectives described above are to be achieved. In the longer term, continued efforts should be made to perfect arrangements for private capital markets to provide the financing that the official export credit agencies provide today. The success of new financing mechanisms could reduce substantially the direct loan requirements of official export credit agencies.

NEW DIRECTIONS AND FUTURE ISSUES

The focus of U.S. export credit policy in the near term must be on negotiating a successful international agreement. In the long term, efforts should be made, in cooperation with other participants in the OECD Arrangement, to facilitate to the extent possible the transfer of export credit finance now provided by governments to private capital markets. The United States should also consider a more appropriate budget treatment for Eximbank and possible alternatives to its current method of financing direct loans.

Whatever new mechanisms arise, developing countries will continue to require export credit assistance, but this should not be handled through a subsidy war among exporting countries. The need for long-term export credits at fixed rates is necessary in many cases because of the economic problems faced by the countries and their lack of developed long-term capital markets. Commercial bank lending for big-ticket capital goods, with highly fluctuating rates and limited tenor, creates severe debt service problems

Another proposal to address the problem was made in an American Association of Banks report. It suggested that all official export credit financing be denominated in U.S. dollars. It also suggested that all official export credit financing be denominated in U.S. dollars. It also suggested that all official export credit financing be denominated in U.S. dollars. It also suggested that all official export credit financing be denominated in U.S. dollars.



"If the United States hopes to get an effective international agreement reducing or eliminating government-subsidized export credits, we must negotiate from a position of strength. We can do that only by maintaining a strong Export-Import Bank. An aggressive Eximbank can convince our trade rivals that, if there is no agreement, we will do whatever is necessary to meet the competition."



CONGRESSMAN DON BONKER

"Export financing is crucial if the United States is to maintain its international trade status. While our goods are competitive in price and quality, sales are lost due to the predatory financing practices of our major trading partners. At no cost to the American taxpayer, Eximbank provides loans to our exporters. These loans do not merely help the large corporations either. Boeing, for instance, one of the largest users of the Eximbank, has 4,500 subcontractors all over the United States. These small- and medium-sized firms also benefit from export financing."

for already financially burdened developing countries.

Official export credit agencies provide a necessary function in facilitating world trade where private capital markets have not developed to provide necessary financing, especially of a long term nature. As international financial markets develop further and perceived risks are reduced, the need for official export credit will also be reduced. In the meantime, the United States should continue to aggressively pursue a multilateral arrangement to end subsidized official export finance as a competitive element in international trade.

New Financing Mechanisms

A number of efforts are already underway with respect to reducing the role of government export credits in the commercial jet aircraft sector by relying on more export financing from private capital markets. Currently the Standstill Agreement relating to commercial aircraft limits repayment terms to no longer than 10 years and limits coverage provided by official export credit agencies to 90 percent of the aircraft price. An interim agreement, effective from October, 1981 to October, 1982, specifies dollar denominated interest rates for direct loans of not lower than 12 percent.

While the interim agreement is in effect, the United States and the countries of the Airbus consortium (France, Germany and the U.K.) are exploring a U.S. proposal, supported by the aircraft manufacturers, to extend loan repayment terms to 15 years which would make it feasible for private capital markets to be used for export financing for aircraft. The current repayment period limit of 10 years, while jet aircraft useful life exceeds 15 years, has created an imbalance between an airline's debt service and the cash-generating characteristics of jet aircraft. Extending the repayment period to 15 years would solve this problem and would open the way for longer term financing at market rates

as a trade-off for officially subsidized export financing restricted to 10 years.

The financing mechanism being explored to achieve the transition to private market financing is an international equipment trust.¹ If this proposal is successful, government direct credits would be replaced by private capital loans with either government guarantees or asset security combined with government-issued political risk insurance.

While technical (and political) difficulties remain with respect to actual implementation of this new financing mechanism, it highlights the type of work that can be directed at long-term solutions to reducing the role of governments in providing direct credits for exports. The guiding principle is that officially supported export credits should be a neutral element in international trade.

The United States and other countries which export nuclear power plants have just begun to explore the possibility of adopting guidelines for this product not dissimilar to those adopted for aircraft. The technical problems here are even more acute as the cost of a plant is much greater than even a small fleet of aircraft and the useful life of the plant extends beyond 20 years. The important point is that new directions and options are being explored.

Options for the Treatment of Eximbank in the Budget and Alternative Sources for Direct Loan Financing

Over the years there has been continued debate and discussion concerning the most appropriate way to handle the budgetary treatment of Eximbank. Most of the debate has been concerned with the issue of whether Eximbank should remain on the budget or receive off budget treatment. Indeed, in 1971 Congress removed the Bank's programs from the budget and in 1975 it returned the programs to the budget again. Proponents of having the Bank on the budget argue that this would allow greater Congressional control of Eximbank lending while proponents of off budget treatment argue that this would allow Eximbank more flexibility to administer its mandate. However, the process by which the Bank generates budget authority and outlays is the same whether the Bank is on or off the budget. And given the current desire by both the Administration and the Congress to

¹ Aerospace Industries Association of America, Inc., Aircraft Financing: The International Equipment Trust (October 1981), pp. 6-12.

exert greater control over off-budget activities, taking Eximbank off-budget could become a distinction without a difference in any event.

A more useful line of inquiry would be to give serious consideration to moving Eximbank out of the international affairs function of the budget. As it now stands, Eximbank obligational authority is considered along with bilateral and multilateral foreign assistance appropriations. However Eximbank is not a foreign assistance activity and much confusion arises from treating it as such for purposes of the budget. More appropriate treatment would be to move Eximbank to a line entry within the Commerce Department budget function where it more logically belongs.

Consideration should also be given to alternatives to Eximbank's current means of providing direct loans to determine if more efficient or fiscally prudent means could be utilized. Such alternatives could include a direct interest subsidy program for commercial bank loans or a refinancing facility through the Federal Reserve System at a special rate for export financing. These alternatives would have to be considered in the context of progress in the international export credit negotiations and efforts to expand longer-term export financing through private capital markets.

A direct interest subsidy program has been suggested by U.S. Trade Representative William Brock and others as a possible alternative to Eximbank's direct loan program. Under this alternative Eximbank would not extend direct loans but would subsidize private banks for the differential between what interest rate they charge and the interest rate extended to the foreign purchaser (this rate would depend on

the Arrangement minimum or what foreign export credit agencies were providing). The major advantage of this type of program is that a much greater value of exports can be supported compared to the direct loan program for a given amount of money. A billion dollars of payment for interest subsidies can go much further toward supporting exports than a billion dollars in loans. A major disadvantage is that the interest subsidies would be direct unrecovered expenditures of taxpayers' money unlike the loans that would be repaid with interest. Also, subsidizing private banks would likely be more expensive than Eximbank borrowing through the Federal Financing Bank because Eximbank's borrowing rate will be somewhat less than the rate charged by private banks.

A second possibility that should be explored is the establishment of a refinancing facility for export credits through the Federal Reserve System similar to the program the French government operates. In France, medium-term credits (up to seven years) are provided through the commercial banking system with the exporter's bank financing around 30% of a credit at the prime rate and refinancing the balance with the Banque de France at a discount rate. The exact proportions are set so that the overall rate for the credit as a whole corresponds to the appropriate minimum rate in the OECD Arrangement. For long-term credits, the portion of the credit exceeding seven years is refinanced by the Banque Francaise du Commerce Extérieur (BFCE) at the minimum rate established by the Arrangement. To fund this program the BFCE raises loans, which have government guarantees, on domestic and international capital markets. The Ministry of Finance then makes up the



AMORY HOUGHTON, JR.
Chairman
Corning Glass Works

"Our company relies little on Eximbank programs due to the characteristics of the products we manufacture; however, I do believe that a financially competitive Eximbank is of a major importance to our country's overall manufacturing capabilities. Subsidized export credits provided by other governments undermine the competitive position and future development of many capital goods producers in the United States. A financially competitive Eximbank is necessary. It must be able to respond to foreign government actions and to put pressure on these governments to halt unfair practices.

"American companies exporting from the United States live in a highly competitive international market. I am confident that under circumstances of fair competition U.S. producers will maintain a healthy share of that market. But this won't happen if we slice Eximbank programs without having abolished the use of government subsidized export credits by foreign governments."

difference between the cost of the loan and the rate at which the BFCE extends export finance. If the United States adopted such a system, it would have the advantage of removing most official export credit financing from any direct influence on the budget. However the conduct of monetary policy will be directly affected and the Federal Reserve System will still have to absorb the costs involved in refinancing the credits at a much lower rate of interest.

An Independent Policy Review Group

What is clearly needed is the establishment of an independent policy review group to examine all of the various policy issues concerning Eximbank and to make recommendations to the Congress and the Administration prior to September 30, 1983, when Eximbank's authority to

enter into new obligations expires and must be renewed. The policy review group should consist of qualified individuals from both within and outside of government, including past Directors of the Bank, and representatives from business, labor and the academic community. The purpose of the review group would be to evaluate the policy issues raised in this paper and elsewhere concerning the Export-Import Bank including the budgetary treatment of Eximbank and possible ways to more effectively finance the Bank's operations. By presenting its recommendations to the Congress before consideration of legislation to extend Eximbank's operating authority, the independent review group will have laid the basis for an informed and sound judgment to be made concerning the Bank and the future course of U.S. export credit policy.

V. Conclusion

A major and immediate trade policy issue confronting the United States is the escalating international competition for jobs and markets based on government-subsidized export credits. The value of trade affected and the amount of subsidies being provided are greater today than ever before.

The United States must aggressively pursue international negotiations to end this competition as soon as possible. In order to ensure that these negotiations are successful, the Export-Import Bank of the United States must have adequate authority to prevent the loss of U.S. exports and jobs to foreign subsidized export credits. This means that recent decisions taken to reduce Eximbank authority must be reversed.

A failure to counter this unfair competition, and to negotiate its elimination, will mean that billions of dollars in U.S. export sales and hundreds of thousands of highly-skilled American jobs will be lost. In the longer-term such losses would contribute to a deterioration in the industrial base of the United States as major capital goods sectors of the economy lose their technological edge and international competitiveness because of reductions in market shares.

U.S. negotiators, backed by a strong and financially competitive Eximbank, should seek an international export credit system based on market interest rates and repayment terms. The objective should be to make official export finance a neutral element in international trade so that competition is

based on quality and price and not differences in officially subsidized export credits.

Cooperative international efforts to facilitate the development of new financial mechanisms should be pursued so that private capital markets can assume much of the export financing now being provided with government support.

In preparation for Congressional consideration to renew Eximbank's operating authority in 1983, an objective evaluation of Eximbank's budgetary treatment, alternative mechanisms for financing its operations, and the role of the Bank in overall U.S. trade policy should be explored by an independent policy review group.

This paper has been an effort to put the current debate about the Export-Import Bank into proper perspective with respect to the domestic and international economic interests of the United States. We are confident that the current policies directed toward reducing the operating authority of Eximbank will be reversed when the public fully understands the essential functions Eximbank performs.

LICIT believes that the United States government should adopt a firm commitment to support U.S. exporters and provide them with equal competitive opportunities in world markets, including export financing. We hope this paper will contribute to the formation of such a commitment.

Appendix A

Export Sales Supported by Export-Import Bank
 Authorizations by State, Cumulative Export and Employment
 Amounts for Fiscal Years 1977 through 1981

State	Exports supported (\$millions)	Employment (thousands)			
Alabama	69,248,315	2,132	Massachusetts	1,118,857,467	34,577
Arizona	99,247,925	3,065	Michigan	1,838,526,488	56,856
Arkansas	96,494,779	2,997	Missouri	60,211,776	2,169
California	6,232,076,046	192,569	Minnesota	870,100,410	26,883
Colorado	40,783,787	1,260	Montana	627,673,749	19,405
Delaware	690,391,516	21,321	Nebraska	37,553,980	1,174
Connecticut	1,671,550,730	51,665	Nevada	1,625,000	50
District of Columbia	168,060,818	5,191	New Hampshire	59,740,990	1,854
Florida	848,053,512	26,203	New Jersey	1,826,483,664	56,547
Georgia	2,039,855,771	63,036	New Mexico	3,249,535	100
Hawaii	7,295,600	226	New York	12,932,000,000	399,599
Illinois	5,855,763,599	180,950	North Carolina	417,173,126	12,885
Iowa	142,291,566	4,388	North Dakota	49,999,260	1,545
Indiana	329,604,338	10,197	Ohio	1,314,907,426	40,634
Kansas	229,560,705	7,107	Oklahoma	384,890,489	11,897
Kentucky	75,295,462	2,324	Oregon	273,978,713	8,467
Louisiana	194,776,418	6,026	Pennsylvania	2,811,730,774	86,891
Maine	3,400,000	105	Puerto Rico	2,700,086	83
Maryland	113,237,097	3,492	Rhode Island	227,897,065	7,045
			South Carolina	75,674,710	2,348
			South Dakota	3,285,000	162
			Tennessee	107,619,527	3,337
			Texas	4,165,943,178	128,729
			Utah	41,725,569	1,298
			Vermont	3,937,494	121
			Virginia	180,545,559	5,593
			Washington	11,771,000,000	363,724
			West Virginia	4,223,749	134
			Wisconsin	2,906,117,588	89,795
			Unallocable by State	9,155,853,929	282,916
			TOTAL	70,614,000,000	2,181,973

Notes: The values for exports and employment by state are based on the contract value of the company supplying the exports. To the extent that the main contractor depended on subcontracting from other states, the employment attributed to the main contractor's state would be overstated. For example, the \$11.8 billion figure for Washington State is primarily for aircraft, much of the components of which come from many other states. Therefore a more accurate picture of the employment effect could be obtained if the subcontracting information were available. The totals under "Unallocable by State" include export transactions for which Eximbank records show as bank or other financial institution as the exporter of record (usually associated with insurance or discount loans), but where the actual U.S. suppliers are not specifically identified in Eximbank records.

Source: Export-Import Bank Fiscal Authorizations 1977-1981.

Appendix B

Typical Dollar and Employment Values for a 3,000 Megawatt Nuclear Equipment Export Order
(Numbers Based on Assumed \$0.68 Billion Order Value and 26,000 Man-Years per \$1 Billion)

State	Number of Firms	Estimated Order Value (\$ Billions)	Estimated Man-Years of Employment	Estimated Order Value (\$ Billions)	Estimated Man-Years of Employment	Total Order Value (\$ Billions)	Total Man-Years
Alabama	1	130	3.4	--	--	130	3.4
California	9	--	--	17,148	445.8	17,148	445.8
Colorado	1	--	--	173	4.5	173	4.5
Connecticut	12	--	--	18,344	476.9	18,344	476.9
Florida	2	53,524	1,391.7	--	--	53,524	1,391.7
Georgia	1	117	3.0	--	--	117	3.0
Illinois	7	--	--	31,911	829.7	31,911	829.7
Indiana	6	7,680	195.7	9,388	244.1	17,068	443.8
Iowa	2	--	--	3,754	97.6	3,754	97.6
Kentucky	1	--	--	12,182	316.7	12,182	316.7
Louisiana	2	--	--	3,904	101.5	3,904	101.5
Maryland	4	6,833	177.7	3,216	83.6	10,049	261.3
Massachusetts	8	--	--	11,074	287.9	11,074	287.9
Michigan	5	--	--	3,598	93.5	3,598	93.5
Missouri	2	3,194	83.0	42	1.1	3,236	84.1
Nevada	1	--	--	14	0.4	14	0.4
New Jersey	13	2,922	76.0	22,269	579.0	25,191	655.0
New Hampshire	1	--	--	40	1.0	40	1.0
New York	14	4,496	116.8	117,007	3,042.4	121,503	3,159.2
North Carolina	4	25,026	650.7	39,807	1,035.0	64,833	1,685.7
Ohio	14	3,340	86.8	10,575	275.0	13,915	361.8
Oregon	2	--	--	17,844	463.9	17,844	463.9
Pennsylvania	39	286,257	7,442.7	89,902	2,337.5	376,159	9,780.2
Rhode Island	2	--	--	1,623	42.2	1,623	42.2
South Carolina	2	23,706	616.4	312	8.1	24,018	624.5
Tennessee	5	--	--	18,624	484.2	18,624	484.2
Texas	3	--	--	9,717	252.6	9,717	252.6
Virginia	3	1,449	37.7	694	18.0	2,143	55.7
Washington	4	--	--	4,305	111.9	4,305	111.9
West Virginia	1	--	--	5,602	145.6	5,602	145.6
Wisconsin	3	--	--	8,257	214.7	8,257	214.7
TOTAL	174	412,674	10,885.6	461,326	11,994.4	880,000	22,880.0

Lester, PA	104,724	2,722.9	Pennsylvania	376,159	9,780.2
East Pittsburgh, PA	59,400	1,544.5	New York	121,503	3,159.2
Monroeville, PA	56,892	1,479.3	North Carolina	64,833	1,685.7
Tampa, FL	35,428	921.2	Florida	53,524	1,391.7
Cheswick, PA	25,541	664.1	Illinois	31,911	829.7
Columbia, SC	23,705	616.4	New Jersey	25,191	555.0
Large, PA	21,977	571.4	South Carolina	24,018	624.5
Pensacola, FL	18,102	470.7			
Charlotte, NC	14,598	379.6			
Blairsville, PA	9,913	257.8			
Winston-Salem, NC	8,741	227.3			
Baltimore, MD	6,801	176.8	Pittsburgh area	184,528	4,797.9
Muncie, IN	6,306	164.0	Philadelphia area	108,560	2,822.7
O'Hara Township, PA	2,629	63.4	Brooklyn	79,338	2,062.9
Horseheads, NY	2,297	59.7	Winston-Salem, NC	39,691	1,032.0
Newark, NJ	2,237	58.2	Tampa, FL	35,428	921.2
Buffalo, NY	2,142	55.7	Columbia, SC	23,705	616.4
Bloomington, IN	1,422	37.0	Pensacola, FL	18,102	470.7
Cincinnati, OH	3,375	87.8	Charlotte, NC	14,576	379.0
Trafford, PA	1,138	29.6	West Caldwell, NJ	12,271	319.1
Millburn, NJ	681	17.7	Louisville, KY	12,184	316.8
			Baltimore, MD	10,051	261.3
TOTAL	\$880,000 & 22,880 Man-Years		Portland, OR	7,180	186.7
			Muncie, IN	6,306	164.0
WESTINGHOUSE	\$418,674 & 10,885.6 Man-Years		Indianapolis, IN	5,694	148.1
	47.6% of Total		Toronto, OH	5,263	136.8
SUPPLIERS	\$461,326 & 11,994.4 Man-Years				
	52.4% of Total				

Appendix C

The Boeing Co.	Canada	(6) 767	274,000,000	Boeing requested preliminary commitment in Feb. 1981. Eximbank did not address request due to moratorium.	French/West Germany/ British Government Assistance. Unknown.	Lost - Airbus
The Boeing Co.	Singapore (SIA)	(6) 757	226,000,000	None. Informal discussion between SIA and Eximbank indicated only 42.5% Direct Credit at 12% interest over 10 years plus 2% fee would be available.	French/West Germany/ British Government Assistance. 80% Direct Credit at 9.25% interest.	Lost - Airbus
Combustion Engineering, Inc.	Venezuela	Power Plant	154,203,000	65% financing at 10.75% interest over 12 years. An additional 20% at 15.5% interest, and a 2% fee.	Japanese Government Assistance. 100% financing at 8.5% interest for 12 years.	Lost - Japan
Combustion Engineering, Inc.	Mexico	Fossil Power Plant	138,977,000	42.5% financed at 12% interest with an additional 42.5% to be provided by private financing at commercial rates through lenders satisfactory to Exim, 12 year terms, 2% fee.	Japanese Government Assistance. 100% financing at 8.5% interest for 12 years.	Lost - Japan
General Electric Company	Indonesia	Locomotive Industry	93,600,000	65% Direct Credit at 12% interest over 15 years, 2% fee.	Brazilian Government Assistance. 90% Direct Credit at 8.5% interest.	In jeopardy to Brazil
Westinghouse Electric Corp. ¹	Mexico	Steel Mill Expansion	85,000,000 (potential \$400 Mil)	85% cover (10% of which was subsidized by the supplier) at 11.75% interest over 20 years, 2% fee.	83.2% cover at 7.75% interest over 15 yrs. 16.8% cover in non-repayable grant plus local cost financing.	Lost - U.K.
Westinghouse Electric Corp.	Korea	Turbine Generators	80,400,000	85% cover (10% of which was subsidized by the supplier) at 10.75% interest with a 2% fee.	85% cover at 7.6% interest for 15 years.	Lost - French
General Electric Company	Venezuela	Medium Steam Turbine	48,000,000	65% Direct Credit at 10.75% interest for 12 years, 2% fee.	Japanese Government Assistance. 85% Direct Credit at 8.5% interest.	Lost - Japanese
Westinghouse Electric Corp. ¹	Mexico	Escalators	19,200,000	Eximbank declined to provide a direct credit due to low unit value of the equipment.	85% cover at 7.34% interest over 5-10 yrs. 15% cover at 3.4% over 20-25 years.	Lost - French

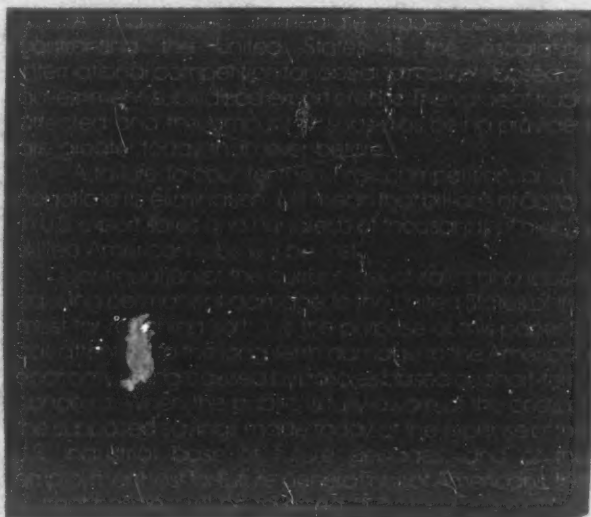
General Electric Company	Panama	Gas Turbine Generators	7,400,000	65% Guarantee only	Japanese Government Assistance: 85% Direct Credit at 7.75% interest.	Lost - Japan
Frederick Electronics	Philippines	Telex Switching Equipment	2,300,000	Eximbank indicated that amount would not qualify for direct lending program assistance	Swiss Government Assistance: 85% financed at approx. 9.5% interest over 10 years.	Lost - Swiss

The total export value of these examples is \$1,129,080,000 which represents 34,889 U.S. job opportunities.

¹ The United Kingdom extended a mixed credit to win this sale. Eximbank does not have the resources to match mixed credit offerings by other export credit agencies.

² This sale was lost primarily because of a mixed credit offer by the French.

Source: Committee on Employment through Exports, U.S. Export-Import Bank, Westinghouse Electric Corporation, The Boeing Company.



ISSUES FOR NATIONAL DEBATE

Mr. TURNER. And with your concurrence, Mr. Chairman, I'll just touch on several issues raised in S. 2600 which we think provides an excellent foundation for the national debate needed on the future of the Export-Import Bank and then go a little more deeply into additional proposals which we're concerned with.

First of all, on the way that the Export-Import Bank is treated in the budget. There's a very serious problem here. We don't understand the convoluted logic of treating loans as expenditures for the purposes of computing the budget surplus or deficit. And we also don't understand the apparent lack of criteria in putting certain Federal credit activities on the budget and certain other ones off the budget. Why is Exim on budget, yet other Federal credit activities, like the Farmers Home Administration, Rural Electrification, telephone revolving fund, et cetera, are off budget?

Second, we concur with the objectives of the proposal for fixed, staggered 4-year terms for the president, vice president, and directors of the Bank. We wonder whether the underlying goal isn't an improved policy in the Bank. And if we were to fix the terms of people whose policies weren't so good, is that the way that we would necessarily want to go? We leave that question open.

Third, the question of an interest subsidy fund, an objective again which we strongly support and one which is vital if we're to achieve the negotiating goal in the OECD of getting governments out of the business of subsidizing export credits.

The LICIT pamphlet which has been referred to, "The Erosion of America's Competitive Edge," lays out in absolutely inelectable logic the connection between a strong Export-Import Bank and the success of those international negotiations, which would, in the end, get governments out of this business.

There are two other proposals which we wanted particularly to bring to your attention. The first, which was touched on in hearings before this committee last month by the president of the Industrial Union Department, Howard Samuel, has since been further discussed within LICIT. This addresses the urgent need to implement effective remedies for foreign export sales into the U.S. market with Government-subsidized financing.

Recent cases come to mind here which will remain unnamed. Recent experience has proven that the OECD arrangement and the U.S. countervailing duty law are not adequate deterrents to prevent the economy injury caused by subsidized export financing practices of foreign governments to win sales away from U.S. manufacturers in our own market.

For one-shot sales of big ticket capital equipment—whether heavy electrical machinery, telecommunications systems, et cetera—U.S. producers are left effectively without any defense against a foreign competitor who is backed up by Government-supplied export financing at whatever terms are needed to win the sale.

In order to meet the injury criterion recognized in the GATT, consideration should be given to a legislative determination of a *prima facie* injury to the competing domestic producer. A presump-

tion of injury which could be rebutted by the foreign producer within, for example, the context of a fast-track GATT proceeding.

Let me add, Mr. Chairman, that prevention rather than a reactive system is vital here. If we let the lollipop of cut-rate financing get into the hands of, say, a transit authority, it becomes politically something of a challenge to try to pull it out—

Senator HEINZ. A particular transit authority?

Mr. TURNER. Well, anyone that you might happen to have in mind. [Laughter.]

But trying to pull that lollipop out of the hands once that entity has a firm grip around it can be difficult, and perhaps even damaging.

Senator HEINZ. And Mr. Ravitch has a firm grip on things, even when there isn't a subsidized financing offer, too. [Laughter.]

Mr. TURNER. And it might also prove useful, Mr. Chairman, and I'm sure that this is something that you particularly would appreciate given your leadership on these issues, it might also prove useful to require that bidders for such capital equipment contracts indicate the full range of government support they receive from their governments. Such a requirement would capture the possibility that the weight of foreign government support could be shifted from prohibited export credit subsidies to other kinds of assistance that could provide decisive competitive advantages to foreign producers of capital equipment in the U.S. market.

STRENGTHEN AND ENFORCE CONGRESSIONAL DIRECTIVES TO EXIMBANK

The second proposal that we wanted to bring to your attention is the need to strengthen and enforce in some way the congressional directive to the Export-Import Bank to offer export financing "at rates and on terms and other conditions which are competitive" with the official export credit programs of our major competitors.

Recent events strike me as somewhat reminiscent of the events that preceded the impoundment debate in the U.S. Congress in the early 1970's. The problem we have to mitigate now is the resistance, for example, of the current directors of the Bank to offer sufficient financing at competitive rates. Perhaps what is required is a more explicit definition of the term "competitive" or a more unambiguous statement of the primary objective of the Export-Import Bank.

We will be addressing and further evaluating these and other proposals for Eximbank in upcoming months in the labor-industry coalition.

We hope with you, Mr. Chairman, and other members of the committee and staff we can further tighten these up so that next year's renewal legislation will not only expand Exim's charter, but will renew and revitalized the Bank's effectiveness in supporting our Nation's economic interests.

Thank you.

Senator HEINZ. Thank you very much, Mr. Turner. Let me just say that you made some very helpful suggestions and, in particular, the suggestion that we better define in section 2 of the bill, 2(b), more explicitly, what we mean by "competitive," what we really have in mind with respect to sufficiency, what is a primary

objective, what is secondary, what taking into account financial resources, in fact, means and does not mean.

I think this is the area, when we have our legislative hearings on presumably, a number of specific proposals which are not now in the legislative hopper, that this is a very important area for us to focus our attention on.

So I thank you for that.

Ray Garcia.

STATEMENT OF RAY GARCIA, PRESIDENT, COALITION FOR EMPLOYMENT THROUGH EXPORTS

Mr. GARCIA. Thank you, Mr. Chairman. I particularly want to thank you for inviting us to testify here today. I would like to submit my statement, the entire written statement, for the record and provide some highlights, in the interest of time.

Senator HEINZ. Without objection, it will be included in the record.

Mr. GARCIA. CEE, as you know, is composed of 41 large and small business organizations, 14 labor organizations, and 11 Governors, working together for a revitalized and strengthened Export-Import Bank.

Since the formation of our organization 7 months ago, membership has more than doubled. Our members are listed in the appendix. We particularly welcome the eight Governors that have joined us just in the past few weeks. They are Governors Bruce Babbitt of Arizona, George Busbee of Georgia, George Ariyoshi of Hawaii, John Evans of Idaho, John Carlin of Kansas, Al Quie of Minnesota, Hugh Carey of New York, and James Hunt of North Carolina.

[The complete statement follows:]

STATEMENT OF RAYMOND GARCIA, PRESIDENT, COALITION FOR EMPLOYMENT THROUGH EXPORTS, INC.

Mr. Chairman and members of the subcommittee, I am Raymond Garcia, President of the Coalition for Employment Through Exports, Inc. CEE is composed of 41 large and small business organizations, 14 labor organizations and 11 governors. Our members are listed in the appendix.

Since the formation of our organization seven months ago, membership has more than doubled. Although the coalition is diverse in make-up, its members share a common purpose. We are working together in the national interest for a revitalized and strengthened Export-Import Bank.

We particularly welcome the 8 governors that have joined us in the past month. They are justifiably concerned about the adverse impact on employment in their states, should Congress enact the 13 percent cut in Eximbank's authority as proposed by the Administration. This is why, at the National Governors' Association winter meeting, the Committee on International Trade and Foreign Relations adopted a resolution calling attention to the critical importance of Eximbank to the states and the need for additional and adequate credit authority for fiscal year 1983. I should like to submit a copy of that resolution for the record.

Similarly, the AFL-CIO Executive Council, meeting at Bal Harbour, Florida, on February 15, adopted a statement calling on the President and the Congress not to slash Eximbank's programs "until other countries cut or eliminate their subsidy programs." And in April, the Council of Engineers and Scientists Organizations, composed of labor organizations whose members are engineers, scientists and technical employees in both the public and private sectors passed a resolution, requesting the Administration and the Congress to raise the Eximbank's "direct borrowing authority to levels at least equal to those in fiscal year 1981 so that Eximbank can better help U.S. exporters match foreign competition and thereby increase U.S. jobs." I also submit this resolution for the record.

In our view, the single, most important action on Eximbank that the Congress could take this year would be to continue the Bank's lending authority for fiscal year 1983 at the current level of \$4.4 billion. Despite good reasons that the Bank will not use all of its authorization in fiscal 1982, the current level of funding should at least be continued in fiscal 1983 for the following reasons:

- (1) To assure U.S. exporters that adequate financing will be available as worldwide economic conditions improve;
- (2) To help the Bank have sufficient resources to be able to match predatory foreign credit practices, if our competitors violate international accords on government-supported export credits;
- (3) To maintain a strong bargaining position for U.S. negotiators when they resume talks in October to reduce export credit subsidies among industrialized countries; and
- (4) To permit the Export-Import Bank to adjust its restrictive credit policies, so as to give U.S. exporters access to export finance at rates, terms and conditions approximating those that foreign governments give their exporters.

In your letter inviting me to testify you stated the purpose of this hearing is to: (1) assess the activities of the Export-Import Bank over the past year; (2) ascertain views on the Bank's place in our overall export strategy; (3) elicit suggestions for revising the Bank's charter; and (4) address legislative proposals to change the Bank's structure and functions. I should like to comment on each of these subjects in turn.

ASSESSMENT OF EXPORT-IMPORT BANK'S ACTIVITIES

In general, we are disappointed with the Bank's activities over the past year. We recognize that Eximbank's management has sought to accommodate the Bank's policies to a reduced budget and a weakened financial condition. But in our judgment it overreacted and formulated policies that needlessly lost U.S. export sales to our competitors.

For example:

- (1) In the space of four months, Eximbank's Board raised interest rates twice, from 8.75 to 10.75 percent in July 1981 and to 12 percent in November 1981—a 37 percent combined increase. At the 12 percent level, the Bank's rates were 75 to 200 basis points higher than the range of interest rates that the other OECD countries (except Japan whose rates are lower) had agreed to charge for officially supported export credit beginning November 16, 1981. This put U.S. exporters at a distinct competitive disadvantage;
- (2) A new one-time "up-front" 2 percent fee was charged for credit applications, based on total Eximbank credit value;
- (3) Expiring preliminary commitments were renewed at the new increased rates with the new fee imposed, thereby removing some American bidders from the competition at the end of the process after all the work had been done;
- (4) New lending was "targeted" primarily to those projects facing the most intense foreign subsidized credit competition. Under this approach Eximbank support generally was no longer available for sales to developed countries, for sales of old-generation aircraft, drilling rigs and selected other equipment, and for lines of credit to foreign countries;
- (5) The temporary policy was made permanent of providing direct credits for only up to 65 percent of the value of U.S. exports, while foreign competitors provide 80 to 85 percent coverage and permit inclusion of local and third country costs. Although the Bank indicated a readiness to provide an additional 10 percent from time to time, this was available only if the exporters were to put up 10 percent from private sources and reduce the interest rate to the Eximbank level; and
- (6) The discount loan program was pared back, by reducing maximum transaction values from \$5 million to \$2.5 million and imposing a 2 percent surcharge on large manufacturers.

These restrictive measures dampened demand for Eximbank assistance, diverted some projects to the overseas affiliates of U.S. firms, and caused others to be lost entirely, losing jobs and supplier sales in the United States.

The Machinery and Allied Products Institute (MAPI) in March of this year published the results of a survey of 39 of their member companies to quantify the loss of exports resulting specifically from the shift of orders to foreign affiliates because of noncompetitive U.S. export financing in 1981. The survey found that:

14 companies reported 39 transactions, valued at \$386.7 million, had been shifted to foreign affiliates "primarily, if not exclusively, because of more attractive financing."

9 companies reported that they had lost, or had not bid, on projects valued at \$4.3 billion in third countries, because of inability to offer competitive export financing; and

3 companies reported the loss, or prospective loss, of orders for customers in the United States totaling some \$160 million.

In February, we asked our then 17 business members for examples of business jeopardized or lost largely due to lack of competitive financing from Eximbank in 1981. Five companies responded, providing 12 examples of business lost or jeopardized, valued at nearly \$1.2 billion. A listing of the examples is attached.

The MAPI results and the 12 cases cited by CEE members represent lost exports totaling over \$1.5 billion and supporting over 46,000 jobs. These examples do not comprise a comprehensive inventory of all export transactions sourced from foreign affiliates or foregone entirely in 1981, because of more attractive export financing available from foreign governments. They do not include the value of follow-on orders, orders for spare parts and the like given up once sales are lost, particularly on "big ticket" items. These can be as great or greater than the initial sales and represent markets that may not be recaptured for a generation, if ever. The tragedy is that these sales and jobs and other export transactions affected need not have been lost at all, if only Eximbank had followed the congressional mandate to provide export financing that is competitive with that which is offered by other governments.

We are hopeful that there might be an awakening in the Bank that its restrictive policies should be relaxed, particularly since it will end the fiscal year with more than \$1 billion of unobligated authority. The abandonment of its single rate policy on July 6 and its decision to finance the 2 percent credit application fee over three years are welcomed changes. But we disagree with the statement in the Eximbank's July 6 press release that these now make Eximbank's financing of U.S. exports "fully competitive" with the support that other countries give their exports. The Bank, for example, still:

- (1) Charges interest rates 65 to 100 basis points higher than the consensus minimums;
- (2) Covers generally less of the transactions than our competitors do;
- (3) Withholds support for certain products, projects and geographical areas covered by other countries;
- (4) Provides no effective defense against foreign mixed credit rates; and
- (5) Has no meaningful medium-term financing program.

The most promising development during the year was the achievement of the OECD accord that further reduced export credit subsidies, by setting new higher minimum interest rates and redefining the classification of countries eligible for various rates. We would encourage the Administration to extend and to continue to improve the arrangement, with the objective of eliminating entirely the subsidy element in government-supported export credits. U.S. negotiators can accomplish this only if the Bank is permitted sufficient authority and pursues aggressively retaliatory policies that will convince our trade rivals that the United States will do whatever is necessary to meet the competition.

THE EXPORT-IMPORT BANK'S PLACE IN OVERALL U.S. EXPORT STRATEGY

Although most U.S. manufactured exports are sold without Eximbank assistance, the Export-Import Bank has been the principal means of financing the export of a broad range of U.S. manufactured products for almost forty years. The Eximbank (together with the Foreign Credit Insurance Association and Private Funding Corporation) principally assists those exports that private lenders are unable or unwilling to finance because of special commercial or political risks. Eximbank also is an indispensable facility for helping U.S. exporters meet competition from foreign producers whose export financing is subsidized by their governments.

Because of the growing need for capital goods, primarily by developing countries, where commercial and political risks are especially high, there undoubtedly will be a continuing and increasing role for government support for such exports in the foreseeable future, largely in the form of guarantees and insurance, but for direct and discount loans as well.

The extent to which Eximbank will continue to be needed to help offset foreign subsidization of interest rates will depend on the degree of success that OECD countries have in working for an export credit system that is based on market rates and market terms. While there has been notable progress in the past year, much more must be done to ensure a favorable outcome.

Export trade is becoming a major source of growth for manufacturing industries and employment in the United States. In 1980, there were 4.8 million jobs related to the export of manufactured products, 1.5 million more jobs than in 1977, the last time the Census Bureau collected these data. Between 1977 and 1980, 79 percent of all new manufacturing jobs were exported related. The Bank's 74 percent growth in credit authority from fiscal 1978 to fiscal 1981 undoubtedly was a contributory factor to the substantial increase in employment related to exports.

We welcome the Cabinet Council on Commerce and Trade's decision to investigate the business community's concern that there be an adequate supply of competitive export financing and to recommend measures for improving export financing capabilities. But we are disturbed by reports that the Cabinet Council plans solely to consider means of supplementing Eximbank and not of strengthening it. Supplements, however valuable they might eventually prove to be, will take years to develop and perfect. In the meantime, there is no substitute for making the Export-Import Bank financially competitive *now*—to help stop the continuing decline in the U.S. share of the world export market and the erosion of the U.S. industrial base. A powerful and aggressive Eximbank must be the foundation of an overall U.S. export strategy.

REVISION OF THE EXIMBANK'S CHARTER

Mr. Chairman, most of our concerns about the Bank's charter are dealt with in your proposed Export-Import Bank Restructuring Act of 1982 (S. 2600). However, I should like to discuss one issue now that your bill does not address and then comment on the charter revisions you have proposed.

On June 24, 1981, in a Report to the Congress, the Controller General of the United States recommended:

"By clarifying legislation, Congress should either direct Eximbank to emphasize its statutory mandate to be competitive over its longstanding and congressionally accepted policy of remaining self-sustaining or this congressional understanding to remain self-sustaining over its statutory requirement to be competitive."

CEE agrees with that recommendation. As recently as June 10 of this year, Eximbank Chairman Draper in an appearance before the Senate Appropriations Subcommittee on Foreign Operations, indicated in colloquy with Senator Kasten, that he interpreted the Bank's charter as putting the statutory mandate to be competitive on an equal footing with the congressional understanding for the Bank to remain self-sustaining. He cited the first part of Section 2(b)(1)(B) of the Export-Import Bank Act of 1945, as amended, to support his contention. This part states that the Board of Directors shall take "into consideration the average cost of money" as well as the Bank's mandate to be competitive in determining interest rates for export loans.

We believe that the time has come to end any ambiguity about Congress' intent on this issue and recommend a legislative solution. There undoubtedly are several ways of accomplishing this. One way would involve the following changes in the charter:

Insert the word "fully" between the words "are" and "competitive" in the second sentence of Section 2(b)(1)(A); and then

Rephrase the first part of Section 2(b)(1)(B) as follows: "It is further the policy of the United States that loans made by the Bank shall bear interest at rates determined by the Board that meet the Bank's mandate to support United States exports at rates and on terms and conditions which are fully competitive with exports of other countries and take into consideration the average cost of money to the Bank;"

These changes together with explanatory report language should adequately address the problem.

LEGISLATIVE PROPOSALS

I will confine the balance of my testimony to commenting on the provisions of your bill, S. 2600, and begin by expressing CEE's profound appreciation for your leadership in seeking to enhance Eximbank's ability to provide American exporters with competitive financing assistance. S. 2600 raises three important issues that should be addressed in considering renewal and improvement of Eximbank's charter next year:

The character of its Board of Directors;

The desirability of continuing the Bank's net outlays in the Federal budget; and

The ability of the Bank to meet and nullify the predatory export credit practices of our trading rivals.

We fully agree with our objective of increasing the independence of the members of the Board of Directors for the reasons you state so well in your introductory remarks in the May 27, 1982 Congressional Record. However, we would amend your proposal in two ways.

First, we would set the terms of the Board members at six instead of four years to enhance the Board's continuity and ability to serve the Bank effectively. The chairman's term would coincide with the term of the President of the United States and be continued as chairman at the end of four years or as Board member for the remaining two years of his term. According to veteran Bank observers, most Board members need at least two years' experience to become fully immersed in the Bank's business. It would be a serious mistake to end that service after only two peak years of performance.

Secondly, we would urge reinstatement of Section 3(d) of the Charter, which mandated the appointment of a nine-member Advisory Committee to advise with the Bank on its program. The Committee was abolished during the Carter Administration by legislation designed to trim the number of advisory committees. We believe that that was unwise as far as the Eximbank was concerned. The Bank needs all the advice it can get on how to improve its programs and a private sector panel broadly representative of the economy could be especially helpful. We would add representatives of state government to the committee to reflect the increasing interest of the states in export financing. And we would recommend that the Advisors be empowered to recommend to the President fully qualified candidates for Board membership.

Your proposal to remove Eximbank's net lending outlays from the Federal budget is the most far-reaching and controversial of the three components of your bill. We believe that your arguments for doing so are clear, compelling and eloquent. They appear to make good economic sense from our vantage point, but I hardly need to tell you that politically they could raise deep concerns that extend far beyond the proper budget status for Eximbank. Some fear that taking Eximbank's outlays out of the budget could begin an unraveling process. Since these fears have been expressed, we would recommend that the Controller General be asked to investigate the pros and cons of this proposal in the context of the overall budgetary process. Hearings might then be held by the Congressional Budget Committees early next year on the Controller General's findings. Expert witnesses representing the broad spectrum of opinion should be invited to participate. The issue deserves very serious consideration and we commend you for having started the debate on its merits.

Finally, I should like to address the third component of your bill, the proposed "Competitive Agricultural Commodity and Manufactured Product Export Subsidy Fund." A special fund of the kind you propose could be very helpful in countering predatory foreign export credit practices, especially since the United States has given up its right to derogate in respect of term from the new OECD arrangement on export credits. It would also give our negotiators additional leverage in coming talks to extend and improve the OECD accord.

We have two recommendations to make concerning the Fund. The first would be to make clear that the Fund is intended to be limited to countering predatory foreign credit practices. The explanation in your introductory remarks clearly states this intent, but the language in the bill does not limit use of the Fund to predatory practices. Our concern is that critics of the provision might claim that authorization of the Fund could provide a "backdoor" means of increasing the direct lending authority of Eximbank by giving U.S. exporters a direct subsidy to lower their export credit interest rates even when foreign interest rates are in line with internationally acceptable practices. Limiting the authority for use only against predatory practices would deny critics that argument.

Secondly, we wonder whether such a Fund is now necessary for agricultural products. On August 16, the Congress approved and on September 8 the President signed H.R. 6955, "The Omnibus Budget Reconciliation Act of 1982." The Act, in Section 135, requires the Secretary of Agriculture for each of the fiscal years ending September 30, 1983, 1984, and 1985 to spend at least \$175 million but not more than \$190 million of Commodity Credit Corporation funds, largely for interest buy-downs or direct export sales, or export subsidies to discourage and neutralize agricultural export subsidy programs by foreign countries. The establishment of this new purpose for CCC funds could possibly make redundant the extension of the fund contained in your bill for agriculture.

I thank you Mr. Chairman and members of this Subcommittee for the opportunity to testify before you today and would be pleased to respond to your questions.

Coalition for Employment Through Exports—Membership as of July 6, 1982:

A. BUSINESS ORGANIZATIONS

1. Aerospace Industries Association.
2. Air Products and Chemicals, Inc.
3. Allis-Chalmers
4. ARMCO INC.
5. Bank of America
6. Bechtel Group, Inc.
7. The Boeing Company
8. Caterpillar Tractor Co.
9. CBI Industries, Inc.
10. Chemtex, Inc.
11. Cincinnati Milacron Inc.
12. Combustion Engineering, Inc.
13. Deere & Company
14. Dresser Industries, Inc.
15. Empire Machinery Co.
16. ENSERCH Corporation
17. First Wisconsin National Bank of Milwaukee
18. Fluor Corporation
19. Frederick Electronics
20. GATX Corporation
21. GTE Corporation
22. General Electric Company
23. Goulds Pumps, Inc.
24. Gulf + Western Industries, Inc.
25. Hughes Aircraft Company
26. McDonnell Douglas Corporation
27. Manufacturers Hanover Trust Co.
28. Morgan Construction Company
29. Motorola Inc.
30. National Machine Tool Builders Association
31. PACCAR, Inc.
32. Pennsylvania Engineering Corporation
33. Raytheon Company
34. Rockwell International
35. The Signal Companies, Inc.
36. F. L. Smidth & Co., Inc.
37. Transamerica Delaval Inc.
38. United Technologies Corporation
39. Wean United
40. Westinghouse Electric Corporation
41. Wheelabrator-Frye.

B. LABOR ORGANIZATIONS

1. American Federation of Government Employees.
2. Building and Construction Trades Department, AFL-CIO
3. Coalition of Labor Union Women
4. Communications Workers of America
5. Council of Engineers and Scientists Organizations
6. International Brotherhood of Electrical Workers.
7. International Ladies' Garment Workers' Union.
8. International Union of Electrical, Radio and Machine Workers
9. International Union of Operating Engineers
10. The Seafarers International Union of North America, AFL-CIO
11. United Association of Plumbers and Pipefitters
12. United Automobile, Aerospace and Agricultural Implement Worker of America
13. United Brotherhood of Carpenters and Joiners of America
14. United Steelworkers of America.

C. GOVERNORS

1. Governor Bob Graham of Florida, Chairman of the National Governors' Association, Committee on International Trade and Foreign Relations.

2. Governor John Spellman of Washington, Vice Chairman of the Committee on International Trade and Foreign Relations, and Chairman of the Task Force on Export Finance.

3. Governor Lee Dreyfus of Wisconsin.

4. Governor Bruce Babbitt of Arizona

5. Governor George Busbee of Georgia

6. Governor George R. Ariyoshi of Hawaii

7. Governor John V. Evans of Idaho

8. Governor John Carlin of Kansas

9. Governor Albert H. Quie of Minnesota

10. Governor Hugh Carey of New York

11. Governor James B. Hunt, Jr. of North Carolina.

EXAMPLES OF BUSINESS JEOPARDIZED OR LOST LARGELY DUE TO LACK OF COMPETITIVE OFFER
FROM EXIMBANK IN 1981

U.S. company	Customer location	Nature of business	Export price	Eximbank assistance	Winner or potential winner's assistance	Status—winner
The Boeing Co.	Canada	(6) 767	274,000,000	Boeing requested preliminary commitment in February 1981. Eximbank did not address request due to moratorium.	French/West Germany/British Government. Assistance: Unknown.	Lost—French.
Do.....	Singapore (SIA).	(6) 757	226,000,000	None, informal discussion between SIA and Eximbank indicated only 42.5 percent direct credit at 12 percent interest over 10 years plus 2 percent fee would be available.	French/West Germany/British Government. Assistance: 80 percent direct credit at 9.25 percent interest.	Do.
Combustion Engineering, Inc.	Venezuela	Power plant	154,203,000	65 percent financing at 10.75 percent interest over 12 years. An additional 20 percent at 15.5 percent interest, and a 2 percent fee.	Japanese Government. Assistance: 100 percent financed at 8.5 percent interest for 12 years.	In jeopardy to Japan.

EXAMPLES OF BUSINESS JEOPARDIZED OR LOST LARGELY DUE TO LACK OF COMPETITIVE OFFER
FROM EXIMBANK IN 1981—Continued

U.S. company	Customer location	Nature of business	Export price	Eximbank assistance	Winner or potential winner's assistance	Status—winner
Do.....	Mexico	Fossil power plant.	138,977,000	42.5 percent financed at 12 percent interest with an additional 42.5 percent to be provided by private financing at commercial rates through lenders satisfactory to Exim, 12 year terms, 2 percent fee.	Japanese Government. Assistance: 100 percent financing at 8.5 percent interest for 12 years.	Lost—Japan.
The Boeing Co.	Malta	(2) 757 (3) 737.	127,000,000	Initial offer: 60 percent direct credit at 9.25 percent interest. Amended offer: 60 percent direct credit at 12 percent interest over 10 years, 2 percent fee.	French/West Germany/British Government. Assistance: 80 percent direct credit at 9.25 percent interest.	Decision postponed, in jeopardy to French.
Westinghouse Electric Corp.	Mexico	Steel mill expansion.	¹ 85,000,000	85 percent cover (10 percent of which was subsidized by the supplier) at 11.75 percent interest over 20 years, 2 percent fee.	83.2 percent at 7.75 percent interest over 15 years. 16.8 percent cover in nonpayable grants plus local cost financing.	Lost—U.K.
Do.....	Korea	Turbine generators.	80,400,000	85 percent cover (10 percent of which was subsidized by the supplier) at 10.75 percent interest with a 2 percent fee.	85 percent cover at 7.6 percent interest for 15 years.	Lost—French.
General Electric Co.	Venezuela.....	Medium steam turbine.	48,000,000	65 percent direct credit at 10.75 percent interest for 12 years. 2 percent fee.	Japanese Government. Assistance: 85 percent direct credit at 8.5 percent interest.	Lost—Japanese.
Westinghouse Electric Corp.	Mexico	Escalators.....	19,200,000	Eximbank declined to provide a direct credit due to low unit value of the equipment.	85 percent cover at 7.34 percent interest over 5–10 yrs. 15 percent cover at 3–4 percent over 20–25 years.	Lost—French.

**EXAMPLES OF BUSINESS JEOPARDIZED OR LOST LARGELY DUE TO LACK OF COMPETITIVE OFFER
FROM EXIMBANK IN 1981—Continued**

U.S. company	Customer location	Nature of business	Export price	Eximbank assistance	Winner or potential winner's assistance	Status—winner
Dresser Industries.	Taiwan	Electrostatic precipitators.	9,000,000	Under current restrictions ineligible for Eximbank assistance.	Swiss Government. Assistance, unconfirmed 85 percent cover at 8.15 percent interest over 9 years.	In jeopardy to Sweden.
General Electric Co.	Panama	Gas turbine generators.	7,400,000	65 percent guarantee only.	Japanese Government. Assistance: 85 percent direct credit at 7.75 percent interest.	Lost—Japan.
Frederick Electronics.	Philippines	Telex switching equipment.	2,300,000	Initial Offer: 85 percent direct credit at 13 percent interest. Amended offer: 65 percent direct credit at 14 percent interest for 5 years.	Swiss Government. Assistance: 85 percent financed at approximately 9.5 percent interest over 10 years.	Lost—Swiss.

¹ Potential \$400,000,000.

The total export price of these examples is \$1,171,480,000. On the basis of the Bureau of Census ratio (i.e. that each \$1,000,000,000 of exports supports about 30,800 jobs) these examples suggest that 35,200 U.S. jobs are threatened.

Source: Coalition for Employment Through Exports, Sept. 14, 1982.

RESOLUTION OF NATIONAL GOVERNORS ASSOCIATION ON EXPORT-IMPORT BANK

Whereas, U.S. exports are critically important to the economic health of each of the 50 States of the Union and to the Territories; exports now account for some 20 percent of total U.S. goods produced and support one of every seven jobs in this country; and each \$1 billion in exports supports 30,800 jobs in the United States; and

Whereas, U.S. exports help offset the massive outflow of U.S. dollars abroad to pay for foreign oil, and their expansions would contribute to new American jobs, a positive trade balance, a strong dollar, and economic growth; and

Whereas, the world's major industrialized nations, Japan, France, the United Kingdom, and West Germany compete with the United States throughout the world for markets, make exports a major priority, and provide government-backed credit incentives for a far greater percentage of their exports than does the United States, which incentives are increasingly the major factor in whether U.S. or foreign companies obtain business; and

Whereas, the Export-Import Bank of the United States (Exim Bank) is the chief vehicle to encourage U.S. exports by providing competitive financing terms; has made commitments to more than 5,700 firms in all 50 States; traditionally has been a self-sustaining institution which has returned over \$1 billion to the Treasury receives no direct appropriations but only borrowing authority and provides far more money to the government in revenues from additional growth and employment than its modest budget cost; and

Whereas, Exim Bank has been subject to severe budget reductions in Fiscal Year 1982 and in the proposed Fiscal Year 1983 budget which imperil its ability to make new commitments, which weakens America's capacity to export and to create jobs in the exporting sectors of our economy; and which amounts to unilateral disarmament in our competition with other industrialized nations;

Now therefore, be it resolved that the National Governors Association Committee on International Trade and Foreign Relations ask the Reagan Administration and the Congress to recognize the need for greater promotion of U.S. exports and to pro-

vide additional and adequate borrowing authority for Fiscal Year 1983 and additional flexibility to enable the Exim Bank to meet its mandate to make competitive financing available for U.S. firms to effectively compete in the world.

And, be it further resolved, that the Exim Bank be authorized to counter the extraordinary financing practices of other countries, while the U.S. government seeks as a matter of long-range policy the multi-lateral elimination of export credit subsidies through international negotiation and agreement.

RESOLUTION OF COUNCIL OF ENGINEERS AND SCIENTISTS ORGANIZATIONS ON EXPORT-IMPORT BANK

Whereas, the major problem confronting America's working men and women is the unemployment brought by the recession and the major priority of our government should be the creation of new jobs; and

Whereas, production of U.S. goods for export around the world supports one of every seven jobs in this country, each \$1 billion in exports supports 30,000 jobs in the U.S., and increased exports help offset massive outflows of U.S. dollars abroad to pay for foreign oil; and

Whereas, America's workers in companies producing for export face tremendous competition disadvantages from other industrialized nations such as Japan, France, the United Kingdom, and West Germany, which make exports a national priority and provide government-backed credit incentives for a far greater percentage of the exports than the United States, which credit terms are increasingly the major factor in whether U.S. or foreign companies obtain the business; and

Whereas, the Export-Import Bank of the United States (Exim Bank), originally created by President Franklin D. Roosevelt, helps support American jobs by providing competitive financing terms for U.S. exports; has made commitments to major unionized firms in the United States; does *not* finance any sensitive goods going to Soviet bloc nations; has traditionally been a self-sustaining institution which has returned over \$1 billion to the Treasury, providing far more money to the government in revenues from additional growth and employment than its modest budget cost; and receives no direct appropriations but only borrowing authority;

Whereas, Exim Bank has been severely cut by the Reagan Administration from a level of \$5.4 billion in direct borrowing authority for Fiscal Year 1981 to \$3.8 billion for Fiscal year 1983, which imperils exports and American jobs at a time of recession and which amounts to capitulation in our competition with other industrialized nations;

Now therefore, be it resolved that the Council of Engineers and Scientists Organizations (CESO), composed of labor organizations whose members are engineers, scientists and technical employees in both the public and private sector, requests that the Reagan Administration and Congress provide increased attention to U.S. exports and increase the direct borrowing authority to levels at least equal to those in Fiscal Year 1981 so that Exim Bank can better help U.S. exporters match foreign competition and thereby increase U.S. jobs.

And, be it further resolved, that Exim Bank continue to avoid financing any sales to Soviet bloc nations detrimental to America's national security.

Mr. GARCIA. Thank you, Mr. Chairman, for the opportunity to testify before your subcommittee today, and we'd be pleased to respond to any questions.

Senator HEINZ. Mr. Garcia, thank you very much.

Mr. Fox.

STATEMENT OF LAWRENCE A. FOX, VICE PRESIDENT, INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. Fox. Thank you, Mr. Chairman. I will summarize my testimony and request that the full text be made part of the record.

Senator HEINZ. Without objection, so ordered. I appreciate your willingness to summarize because our policy lunch started about a half hour ago and I need to find out what policies we've got. [Laughter.]

Mr. Fox. I shall take that into account, Mr. Chairman, and hold my comments down.

I think the No. 1 thing that the committee is doing now is to take a look at the budget process. There's nothing sacrosanct about present budget procedures. When I first came to this city, my first job in Government was budget examiner for the Export-Import Bank in the old Budget Bureau. At that time——

Senator HEINZ. What year was that?

Mr. Fox. That was 1945. At that time, the only item in the Eximbank subject to congressional review was administrative expenses. Everything else was open. At a later time, in the early 1970's, Eximbank was subject to changes.

In the late 1940's the Government Corporation Control Act was introduced which controlled the program expenses. Then loan authorization ceilings were introduced. Then Eximbank was taken off budget under the Ash Commission, it was put back on budget. And now you have the situation where items budgeted for that are not even expenditures.

So the process is not sacrosanct, and I think we will benefit greatly by the review which your proposals with respect to net expenditures off budget requires.

In trying to arrange competitive financing for sales in international markets, the U.S. manufacturing industry during the past half dozen years has been increasingly hard pressed by the combination of very high domestic interest rates and extremely aggressive export financing practices of other countries.

[The complete statement follows:]

Statement of
Lawrence A. Fox, Vice President of
National Association of Manufacturers
on the
"Export-Import Bank Restructuring Act of 1982"
before the
Subcommittee on International Finance and Monetary Policy
of the
Senate Banking Committee
September 14, 1982

Mr. Chairman and members of the Subcommittee, I am Lawrence A. Fox, Vice President for International Economic Affairs of the National Association of Manufacturers. I very much appreciate the invitation to appear today before the Subcommittee to present NAM's views on U.S. export financing practices and how some of the problems in our official system might be addressed by S. 2600 -- the "Export-Import Bank Restructuring Act of 1982."

The 11,000 members of the NAM account for approximately 80 percent of U.S. industrial output and 85 percent of U.S. industrial employment. Because the lion's share of U.S. exports are shipped by the larger American companies, almost all of whom are NAM members, it is a fair guess that our members account for an even greater portion of U.S. manufactured exports than of U.S. industrial production. In practical terms, this means that our concern for U.S. international competitiveness is second only to our concern for the strength of the U.S. industrial base. In fact, the two cannot be separated.

In trying to arrange competitive financing for sales in

international markets, the U.S. manufacturing industry during the past half dozen years has been increasingly hard pressed by the combination of very high domestic interest rates and extremely aggressive export financing practices of other nations. Yet, even in these circumstances, it has been virtually impossible to obtain adequate and reliable funding for the Export-Import Bank under the current procedures for handling the Bank's annual budget. The "Export-Import Bank Restructuring Act of 1982" would help resolve this problem. I am, therefore, pleased to have this opportunity to provide you with our comments on this legislation.

Importance of Export Financing

The importance of export financing to the sale of manufactured goods in international markets is not hard to understand in the case of major projects and big ticket items such as capital goods. Recent developments in the U.S. housing market are instructive relative to the importance of the cost of credit. We have seen very clearly over the past two years in our housing market that home buyers will not make major, long-term purchases unless reasonable financing is available. Such financing, of course, has not been available and the housing industry is in a severe slump.

The role credit plays in the health of the U.S. housing industry is similar to the role it plays in the health of U.S. manufactured exports. Other nations have long understood this fundamental aspect of trade competition. They have established financial structures in their national economies which are as supportive of their export industries as our financial system has been of our housing industry

over the past 30 years. In 1980, for example, the major industrial nations authorized over \$160 billion for export insurance, guarantees, and direct credits. Japan authorized \$56 billion in official export finance, the United Kingdom \$43 billion, France \$32 billion. The U.S. level was \$12.6 billion, the lowest of any of the major trading countries. As seen in chart 1, 30-40 percent of the total exports of Japan, the U.K. and France were assisted by official export credits of one type or another. The corresponding figure for the U.S. is about 5-1/2 percent.

The aggressive export financing practices of other nations in large measure reflect their response--catch-up ball if you wish--to the advantages which the U.S. export financing system once conveyed upon U.S. exports. Up until the mid-1970s, our export financing system could draw on our commercial markets with their relatively low rates of interest and favorable terms to supply most of the competitive financing needs of U.S. manufacturers. The Export-Import Bank was then available to support those longer term projects in which competitive financing was not available in the private commercial markets.

While other nations were working in the 1960s and 1970s to establish competitive export financing mechanisms to support their exports, events were working to weaken the advantages once enjoyed by the U.S. export financing system. U.S. commercial interest rates climbed above the rates of our principal competitors. With higher rates and sharper fluctuations in these rates U.S. commercial banks were less able to meet the demand for export credits at fixed rates, especially for large projects. At this time European and Japanese

Chart 1

Official Export Support Authorized (in \$ billion)

	1978	1979	1980
Canada	\$ 4.0	\$ 3.5	\$ *
France	30.7	32.2	31.6
Germany	15.0	14.5	14.5
Italy	8.7	8.0	*
Japan	31.8	39.4	56.1
United Kingdom	35.1	33.4	42.9
United States	7.4	9.5	12.6

*Information not available.

Percentage of Total Exports Supported by Official Financing

	1979	1980
Canada	6.3%	*
France	32.0	27.2%
Germany	8.4	7.5
Italy	11.1	*
Japan	38.3	44.3
United Kingdom	38.7	39.0
United States	5.2	5.7

*Information not available.

efforts to overcome the balance of payments consequences of the higher costs of oil brought into being new export credit techniques and increased export credit subsidies to fuel their export expansion drives.

As a consequence of these developments, large U.S. companies in order to compete in international markets found alternatives to exporting goods from the U.S., often sourcing orders out of foreign plants with credits offered by foreign banks and government institutions.

There are many examples of lost export business for U.S. companies due to non-competitive export credit terms. For example, a recent survey by the Machinery and Allied Products Institute indicates that many U.S. companies routinely divert export orders to foreign affiliates in order to obtain competitive export financing. Their survey, which covered only 39 companies, identified \$386 million in export orders that were shifted to foreign affiliates in 1981 because the financing available abroad was more attractive. The problem is so endemic and the response so routine that the study almost certainly understates the problem even for the firms covered. Even so \$386 million, viewed as the tip of the iceberg, is significant. Commerce Department estimates of the ratio of export values to jobs indicates that this lost business represents about 13,000 lost jobs for this country.

In some cases, U.S. manufacturers try to compensate for the lack of official support in this country by arranging "creative" financing deals with commercial banks. This can be a tough road to follow when you are trying to compete with the treasuries of our major trade

competitors--a fact illustrated by a recent experience of American Sign and Indicator Corporation in Brazil. I quote from a letter sent to us by American Sign and Indicator describing their particular case:

Our competition was Italy's soft loan at 7.5% on \$65 million in financing. We offered 7%, built the interest subsidy into the equipment price, matched the other terms, came in with a final bid of almost \$1 million less than our Italian competitor, and still lost the job. The reason given by the Brazilians was that it was easier for them to consummate a loan of \$65 million and incorporate the purchase of other Italian equipment versus two separate loans.

Mr. Chairman, the case example provided to us by American Sign and Indicator is an excellent example of how an uncompetitive official financing system hurts U.S. manufacturers and workers. (I have attached to my testimony a copy of the complete letter sent to us by American Sign.)

The NAM has regularly surveyed our member companies concerning the competitiveness of official financing systems. The results are always the same. The U.S. ranks behind other major industrial nations such as France, Britain, Japan, and Germany; sometimes we are ahead of Italy. The Eximbank's own surveys over the years have produced the same results.

The United States Government, which historically has tended to underestimate the importance of exports, has not responded in any fundamental manner to these new realities of international competition. It still does not seem to realize that 30 percent of the net job increase in the private sector between 1977-80 came from manufactured exports and that the continued health of this critical sector depends upon maintenance of a competitive export financing system.

Misunderstanding of What Eximbank "Costs"

There are a number of reasons for our failure to develop a competitive export financing system. One reason is a misunderstanding about the cost to the U.S. taxpayer of providing the Eximbank with adequate financing. The Eximbank ordinarily receives no direct tax dollars from the U.S. Congress to cover the loans and guarantees it makes or the costs incurred in implementing its programs. Instead of appropriating funds for the Eximbank, Congress establishes a ceiling on the level of program activity that the Bank may engage in for each fiscal year. The Bank then borrows the necessary funds from the Federal Financing Bank (FFB), which is an agency of the U.S. Treasury. In Eximbank's case, it borrows indirectly from the credit markets through the FFB (which borrows in the capital markets for several federal government agencies).

The Eximbank generates resources to repay its borrowings through loan repayments, interest on outstanding loans, commitment fees and insurance premiums. So far the Bank has been able to absorb the cost of its borrowings, repay the FFB with interest, pay the Treasury Department more than \$1 billion in dividends and triple its initial capitalization of \$1 billion. In short, the Eximbank operates similarly to a commercial bank. It makes loans, and charges interest and fees for services. As the loans are repaid and fees collected, the Bank repays its own borrowings and the interest due on these borrowings, pays administrative costs and dividends, and builds up reserves.

Although each year Congress sets a limit on the amount of loans and guarantees that the Eximbank is allowed to issue, net outlays by

the Bank for its programs are much lower than the authorization figures. There are two reasons that explain this obviously interesting point.

First, unless a claim is made against the Bank, there is no budget outlay for guarantee and insurance programs, which account for well over one-half of the annual authorization for the Eximbank. In the Bank's almost 50 years of existence, the default rate on its guarantee program has been only three-tenths of 1 percent of all guarantees issued.

Second, authorizations are made annually, while outlays flow from these authorizations over a period of years. Thus, while the direct and discount loan programs are included at full value in the budget authority figures and the Bank usually authorizes up to its limit, net outlays (what must be financed by borrowing from the FFB) are much smaller. To measure actual outlays, the schedule of disbursements must be taken into account, with loan repayments and interest payments subtracted from total expenditures.

Chart 2 illustrates how this process works using fiscal year (FY) 1981 as an example. Prior year commitments on direct loans payable in FY 1981 of \$2.73 billion, current and prior year authorizations for discount loans of \$2.7 billion, and disbursements on new direct loans of \$.51 billion required total loan disbursements of \$3.51 billion. Operating costs, interest payments, administrative costs and net claims paid out were \$1.23 billion.

These obligations were offset by \$1.47 billion in loan principal repayments, \$1.6 billion in interest charges and \$40 million in guarantees, insurance premiums and fees. Total disbursements and costs,

less offsetting payments, equaled net outlays of \$2.07 billion. So in fiscal year 1981 only \$2.07 billion out of authorizations of \$12.8 billion was borrowed from the FFB to implement Eximbank's program for that year. Thus the Eximbank's program impact on the credit markets is marginal.

A summary of Eximbank net outlays for fiscal years 1977 through 1981 is found in chart 3. As the chart indicates, from 1977 through 1981 total program authorizations of \$47.8 billion required net outlays of \$4.27 billion.

Comments on "Export-Import Restructuring Act of 1982"

I hope I have succeeded in explaining how Eximbank's budget works because it is important to understand that the figures which appear in the Federal budget for the Bank represent loan disbursements and not grants. The net outlay figure of \$4.27 billion mentioned above is going to be repaid with interest. Interest payments in FY 1981 amounted to over \$1 billion (see Chart 2). This is hardly true of other items in the Federal budget. Yet, the current budget process makes no distinction between a loan disbursement by Eximbank and an outright expenditure by some other government agency.

The "Export-Import Restructuring Act of 1982" (S. 2600) tries to resolve this inconsistency in the budget process by removing the Bank's net outlays from the appropriation budget while still requiring the Bank's overall program levels to go through the annual authorization and appropriation process.

Let me be very clear that we are not in favor of taking the Eximbank "off budget" and out of control of Congress. Ideally, the

Chart 2

Eximbank Impact on FY 81 Federal Budget (in \$ billion)

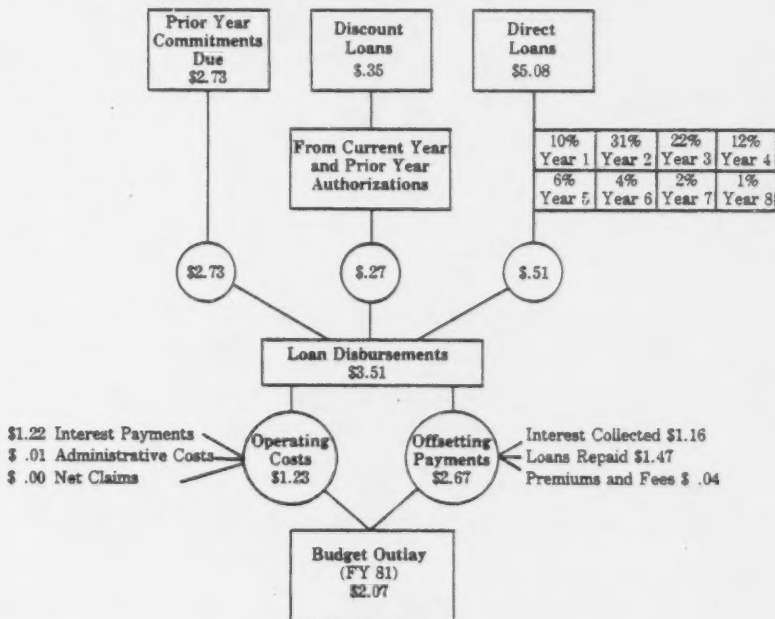


Chart 3

Eximbank Export Support and Its Impact on the Federal Budget (in \$ billion)

	1977	1978	1979	1980	1981	Total
Total Program Authorizations (includes all loans, guarantees and insurance)	5.6	7.4	9.5	12.5	12.8	47.8
Net Outlays	.3	-(.1)	.2	1.8	2.07	4.27

best long term solution to dealing with the Eximbank might be its inclusion in a binding Federal credit budget. NAM's Vice President for Tax and Fiscal Policy, Paul Huard, testified on this subject before the Task Force on Credit of the Budget Committee. In his testimony Mr. Huard set forth a number of questions which we feel must be asked in evaluating our various Federal credit programs:

- Does the original need for the program still exist?
- Is the program cost effective or are there more moderate methods available to achieve the same goal?
- How much of a federal subsidy is included in the interest rate set for the program?

We specifically state that "one Federal credit program which NAM feels passes the test set forth in the preceding questions is the Export-Import Bank".

The development of a binding Federal credit budget is hardly around the corner. Between now and then a lot of manufacturing business and employment is going to be lost unless we establish a competitive export financing system. It is doubtful that we are ever going to do so, however, if we are saddled with a budget process in which we seem to mix up assets and liabilities. Under such a system, every time we try to expand Eximbank, and hence increase its net outlays, a red light is going to come on warning about increasing the budget deficit. It is important to pay attention to such red lights. But in this case, the light is a malfunctioning signal leading to actions not justified by underlying conditions. The signal is mixing expenditures, which are never going to be repaid, with loan disbursements, which are repaid with interest.

The change which S. 2600 would make in the budgetary treatment of Eximbank is the critical aspect of the legislation. There are, of course, other provisions in this legislation on which I would like to briefly comment:

1) "War chest" funding -- NAM for the past two years has supported the so-called "war chest" bills which would provide Eximbank with special funding to counter the extraordinary financing practices of other nations. We continue to support such legislation as a necessary step in protecting U.S. interests as long as such protection cannot be secured through international agreements. We, therefore, endorse the "war chest" provision of S. 2600.

Members of NAM's Export Financing Task Force, however, have expressed concern over the proposal contained in S. 2600 for financing of agricultural exports through an Eximbank "war chest" fund. We do not question the need for such financing, but we do wonder whether Eximbank is the proper place to handle it.

2) Board of Directors -- As for the proposal in S. 2600 to stagger the terms of the Eximbank's Board of Directors, we have no objections to such a change. Continuity in the Bank's leadership makes good sense.

3) Reauthorization of the Eximbank -- We do, of course, support the provision in S. 2600 extending the Bank's charter until September 30, 1988.

Administration Policies Toward Export Financing

We are under no illusions that S. 2600 will solve all the problems of funding the Eximbank. The legislation really just recognizes the realities of the Bank's impact on the Federal budget and makes adjustments accordingly. It will not provide American exporters with a stronger Eximbank if the Administration is determined not to have one.

In this regard, we find encouraging a statement by Eximbank President, William H. Draper, contained in the Bank's latest annual report: "The time is past when American companies can limit their sales to the domestic market and the time may never come when they can rely on the private sector to meet all of their needs for competitive export financing." This statement not only recognizes the vital link between international trade and domestic economic growth, but it also acknowledges the important role Eximbank has in ensuring a competitive U.S. export financing system. This seems to be a more realistic assessment of what it takes to compete in world markets than we heard from top Administration officials one year ago. In parcelling out budget cuts last year, reducing Eximbank's budget was seen as business' sacrifice along with everyone else. What did not seem to be appreciated in such a policy was that the success of our domestic industrial revitalization program was linked in many important ways to the success of U.S. companies in international markets.

We, therefore, applaud the more realistic note which Mr. Draper has introduced into the Administration's position on the Eximbank. We hope that this will lead to policy actions to strengthen the Bank. Specifically, we wonder how competitive the Eximbank can be when it

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continues to charge a 2% user fee on new business. The maintenance of this fee would seem to be a clear signal that the Administration still attaches greater importance to making the Bank a self-sustaining institution rather than a competitive one. As this Subcommittee knows, the latter goal is mandated by Congress in the Eximbank statutes; the former is not.

The competitive posture of the Bank is further eroded by the fact that it will apparently not use its entire budget authority for FY 1982. The worldwide recession has something to do with this fact. So does the 2% user fee and other steps taken by the Eximbank's management to reduce demand for its services. The Bank has simply discouraged U.S. business from applying for loans by charging higher rates than could be obtained abroad, and financed a smaller portion of the total transaction price.

As with past Administrations, this Administration has put a great deal of weight on international credit negotiations. As this Subcommittee is well aware, there has been a succession of international negotiations on export credit, but the "credit war" continues. This may be partly due to the fact that the perception of the United States as a "paper tiger" has yet to be seriously challenged, much less disproven. At the 1980 Venice Summit, for example, the participants agreed to, "strengthen the international arrangement on export credits with a view to reaching a mutually acceptable solution covering all aspects of the arrangements by December, 1980."

Then in 1981 the Ottawa summit leaders agreed to, "endorse efforts to reach agreement by the end of this year on reducing subsidy elements in official export credit schemes."

In the 1982 Versailles summit it was acknowledged that there was a "need for commercial prudence in limiting export credits" to the Soviet Union.

NAM has recently published an article on the history of the international credit negotiations in a recent issue of our International Economic Report. A copy of this article is attached to our testimony.

To be sure, some progress has been made in these negotiations but it is progress that has done little to foster U.S. economic interests. These interests must be achieved only by means of a two-path approach: providing the Eximbank with adequate funding and negotiating a sound and effective international agreement. I personally doubt that we can achieve the latter unless it is clear that we have accomplished the former.

Mr. Chairman, I want to thank you for allowing me to testify today on the U.S. export financing system. I will, of course, be glad to answer questions.



American Sign & Indicator Corporation

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October 16, 1981

Mr. Howard Lewis, III
Assistant Vice President
International Economic Affairs
Department
National Association of
Manufacturers
1776 "F" Street NW
Washington, DC 20006

Dear Mr. Lewis:

Thank you for your letter and remembering the plight we faced in endeavoring to arrange export financing in Brazil. Your letter and paper focuses directly on the situation that we faced in attempting to penetrate the Brazilian marketplace with our Flight Information Display Systems.

Since our conversation in August, there is a postscript to that particular project. We did arrange a financing package with a commercial bank that was competitive in rate by increasing our sale price to directly subsidize the bank and permit them to earn their desired yield. Our competition was Italy's soft loan at 7.5% on \$65 million in financing. We offered 7%, built the interest subsidy into the equipment price, matched the other terms, came in with a final bid of almost \$1 million less than our Italian competitor, and still lost the job. The reason given by the Brazilians was that it was easier for them to consummate a loan of \$65 million and incorporate the purchase of other Italian equipment versus two separate loans.

Although our involvement in that project would have been only \$4.5 million (a significant amount to our company), the fact that we were unsuccessful in winning this bid automatically precludes us from being considered as a supplier for approximately \$8 million worth of Brazilian airport projects contemplated within the next two years. Couple that with the opportunity lost to establish our product in an international environment and we have a bitter pill to digest.

Although this was our first attempt at arranging medium term export financing, I envision that it will not be our last. This experience graphically demonstrates our ineffectiveness in competing with soft loans and that we do not possess the weapons

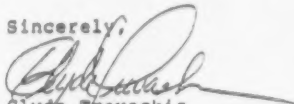
American Sign & Indicator Corporation

Mr. Howard Lewis, III
October 16, 1981
Page 2

to be a consultant in the so-called "export credit war." Your well done paper definitely covers the void that exists in this area. My brief experiences in talking to other U.S. suppliers indicates that our company is not alone in the frustrations of lost export opportunities.

I would sincerely appreciate your adding my comments to any others that you may be referring to the USTR. Thank you for your support.

Sincerely,



Clyde Trevaskis
Credit Manager

5/1782

International Economic Report

December 1981/January 1982

International
Economic Affairs
Department

1775 F Street N.W.
Washington, D.C. 20006
Phone (202) 528-3700



National
Association of
Manufacturers

Export Credit Negotiations Reviewed

Although efforts by the major industrialized nations to limit officially supported export credits have been going on for over 50 years, the desire of all parties to reach a resolution has increased considerably in the last several years. High interest rates in most of the industrialized nations (except Japan) have meant that the level of government subsidies to promote exports has increased dramatically since 1978, when the current matrix of minimum rates was negotiated, and the cost to government treasuries has been enormous. In the United States, new budgetary constraints on the Export-Import Bank and the prospect of its first operating loss in history have made it all the more imperative that interest rate subsidization be minimized, and preferably eliminated.

The NAM has traditionally supported international negotiations to limit official export credit practices—including current efforts to reach an agreement that reflects new international economic conditions and realities. The recent developments in the credit negotiations are part of a long history that goes back to the 1930s.

A look at the history of the negotiations gives some interesting insights into current negotiating positions. The French, for example, have consistently regarded exports as a critical element of their overall economic policy and official financing as an essential ingredient in promoting increased exports. Consequently, they have resisted efforts to curtail government support for export financing. The United States, on the other hand, initially supported the position that "credit, like other elements of cost, is a legitimate factor of competition, and should therefore not be subject to unnecessary regulations." (*The National Advisory Council 1972-1973 Annual Report to the President and Congress*) Since 1974, however, the United States has sought to minimize the role of financing as an element in export competition. As United States Trade

Representative William Brock said in testifying before Congress, "export credit subsidies must be eliminated." The administration's position is that finance must be a neutral element in international trade competition.

It is also important to note that events have usually overtaken the international credit agreements and made them inadequate to control abuses of the system, i.e., as the minimum level of interest rates was increased, the use of mixed credits (the combination of an export credit with foreign assistance to create a blended interest rate that is considerably lower than the export credit interest rate) increased dramatically. In short, the international credit negotiations may never end and U.S. export financing policy should recognize this fact.

Early History

Many attempts have been made to regulate officially supported export credit since the early 1930s. These efforts have proceeded along two basic lines: the first has been to facilitate exchange of information among export credit agencies in order to achieve an element of "transparency" in official financing transactions. The second has been to reach an agreement about what the terms of subsidized export credit should be regarding such factors as interest rates, repayment periods, down payment, local costs, cost-escalation insurance and exchange rate guarantees.

The earliest attempt to coordinate the practices of the various export-credit agencies was a private-sector attempt at self-regulation that resulted in the establishment in 1934 of the Berne Union. Three private companies in France, Italy and Spain and the Export Credit Guarantee Department (ECGD) of the United Kingdom were the founding members of a group that has grown steadily until it now includes 37 members. The Berne Union's main objective was to encourage the free and frank exchange of ideas and information and to secure "international acceptance of sound principals of export credit insurance, and the establishment of discipline in international trade."

By the late fifties, however, the Berne Union proved to be unable to exert effective control over the expanding competition in export credits. Since the union was primarily a non-governmental organization of credit insurers with limited membership, it could not control governments' policies in credit insurance and export finance. Nonetheless, concern over export policies was widespread and resulted in the establishment in 1963 of a permanent group on export credits and credit guarantees by the OECD Trade Committee. (This group now includes all OECD nations except Ireland, Luxembourg, New Zealand and Turkey.) The group's aims were to evaluate national policies relating to export finance and insurance and to try to resolve problems through multilateral discussions and cooperation. Although the group did some work on procedures for reporting information, it accomplished very little during the decade of the 1960s.

By 1970 the rising cost of export credit to individual countries and concern over the implication of increasingly fierce official credit competition among industrial nations prompted the OECD to focus serious attention on export credits. The export credit group drafted an agreement on prior consultation and by 1971 all six European Economic Community countries were supporting it. The United States, however, rigorously opposed this agreement. A 1971-72 *National Advisory Council Annual Report to the President and Congress* states that "United States positions have tended toward maintaining freedom for the use of export credit as a factor of competition. The United States view is based on the belief that credit, like any other element of cost, is a legitimate factor of competition, and that restrictive agreements invite evasion."

The U. S. position in the international negotiations at the time was not that surprising. The United States capital market was the world's largest and most efficient and, consequently, United States exporters could obtain most of their financing from the private market. Hence they did not need major government financial assistance in competing for export sales. Accordingly, in

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international negotiations, the United States agreed only to participate in an agreement to establish an information exchange system through which members could request from one another details of credit terms that they were prepared to offer in particular transactions.

The Consensus

In 1974, after the twofold increase in the price of oil, major industrial nations embarked on aggressive export expansion programs designed to help pay their oil import bills. Financing for exports was one of the important weapons used by most of these countries. The United States, increasingly disturbed by the highly concessionary nature of the credit terms offered by other countries, changed its position and decided that a set of international rules was needed to control export credits.

Among negotiating countries there was a fundamental disagreement about whether control of export credits should be directed toward the interest rates or the terms of export credits. The United States considered low interest rates the chief source of unfair competition, while other countries, unable to meet the long credit periods offered by the United States, considered credit terms the more important issue.

Despite this disagreement, in 1974 the major trading country leaders agreed to establish, as a general principle, a minimum interest rate of 7 1/4 per cent for officially supported export credits with a repayment term of more than five years. During 1975, discussions continued on a comprehensive "gentlemen's agreement" covering most elements of official support for export credit: down payments, interest rates; repayment terms, local costs, mixed credit, cost escalation, exchange rate guarantees, and the level of official support—both overall and in percentage terms.

Finally, in February 1976, an agreement among the member states was concluded, but no formal signatures were put on it because individual European countries did not have the mandate to negotiate such an agreement bilaterally. (The EEC had

the legal mandate to negotiate agreements on export credits.)

In June 1976 all seven countries (except France, which began implementing the guidelines without making a formal announcement) agreed to declare unilaterally that they intended to apply the basic guidelines on export credit. Known collectively as "the consensus," the guidelines were intended to bring export financing practices close to market terms and to set out minimum cash payments and interest rates and maximum repayment terms, as well as procedures for one country to notify others when it proposed to exceed the guidelines, or to offer a mixed credit with a grant element of less than 25 per cent.

The Arrangement

The United States regarded the consensus as only a first attempt at restraining competition in official export credit financing. The United States proposed that the minimum interest rate should be higher for the intermediate category of countries and for longer maturities, and that mixed credits should be severely curtailed. The European countries, however, opposed any substantive changes in the consensus.

In 1978, an agreement on the text of the International Arrangement on Guidelines for Officially Supported Export Credits was finally reached and by the end of May all 22 members of the OECD export credit group had accepted the arrangement. Like the consensus, the arrangement excluded certain categories of exports: military equipment, agricultural commodities, aircraft, nuclear power plants and those ships covered by the OECD understanding on export credits for ships (the terms of which were the

same as those in the arrangement).

The provisions of the arrangement are listed in the box on this page.

The arrangement was an improvement over the consensus in that it was more comprehensive and precise. Moreover, while the consensus was a collection of separate declarations made at separate times and susceptible to individual interpretation, the arrangement was a single document to which all members of the export credit group subscribed from the outset, and it was a binding agreement.

Assessments of the success of the arrangement varied among the different participating members. France, which was able to a large extent to tailor the arrangement to accommodate the export credit policies and institutions of the French government, expressed the greatest satisfaction with the arrangement and the least desire to change it. The United States, which had agreed to lower interest rates and shorter maturities than it had initially sought and had abandoned its proposal on mixed credits, began pressing almost immediately for changes.

The guidelines were to the United States only the first step toward reform of the system. Just two-and-a-half months after the arrangement went into effect, Treasury Secretary Michael Blumenthal began to push for a broadened and strengthened arrangement. By the second half of 1978 the United States government was putting intense pressure on the Europeans to negotiate an increase of interest rates, eliminate all official support for local costs, establish

International Arrangement Terms

Classification of Borrowing Country	Number of Years in Repayment		
	2-5	5-8.5	8.5-10
Relatively Rich	7 1/4%	8%	No credits
Intermediate	7 1/4%	7 1/4%	No credits
Relatively Poor	7 1/4%	7 1/4%	7 1/4%

further restraints in mixed credits, and include more sectors in the agreement. But throughout 1978 and 1979 the European Economic Community firmly resisted changes in interest rates and no progress was made.

In 1979, the OECD arrangement participants commissioned Axel Wallen of the Swedish Export Credit Agency to prepare a study of the structure of interest rates. The Wallen report analyzed the disparity among market interest rates, and examined how much subsidy the matrix should allow, whether interest rates should be the same for all currencies and whether they should be in line with market rates. The report did not examine maturities, down payments and country categories. Wallen concluded by suggesting that the existing matrix could be replaced either by a Uniform Moving Matrix (MUM) or by a System of Differentiated Rates (DRS).

The MUM would resemble the existing matrix in that interest rates for official export credit would be identical for all participants. These rates would be based on the average of the market rates for participating countries, weighted according to their importance. The matrix would be reviewed periodically and if the weighted average of market rates had changed, appropriate adjustments would be made. As with the existing matrix, the amount of the subsidy would vary from currency to currency. A system of differentiated rates (DRS) would entail setting a different rate for each currency, related to the market rate for that currency, from which would be deducted a margin of subsidy that would be the same for all currencies. This would be a more radical departure from the existing system. The DRS would also involve automaticity in periodically adjusting the interest rates to mirror rates in the private credit markets. The United States preferred the DRS because it minimized the extent of the subsidy used in export financing but many European countries preferred the MUM because it was closer to the current arrangement.

Negotiations throughout 1980 were not very productive. In June, the

Allowable Interest Rates

Classification of Borrowing Country	Number of Years in Repayment		
	2-5	5-8.5	8.5-10
Relatively Rich	11.0% (8.5%)	11.25% (8.75%)	No credits
Intermediate	10.5% (8.0%)	11.0% (8.5%)	No credits
Relatively Poor	10.0% (7.5%)	10.0% (7.75%)	10.0% (7.75%)

European Economic Community agreed to a small interim increase in the interest rate minimum (75 per cent for the relatively rich and 25 per cent for the relatively poor countries) and gave a commitment to further increases in December. However, in December the European Economic Community agreed to increases of only .8 per cent for the developing countries and 1 per cent for developed countries and this was viewed as totally inadequate by the United States and other non-European Economic Community countries. Moreover, the European Economic Community could not agree among themselves over whether to support the MUM or the DRS; and France did not want to make any changes in the structure of the arrangement or the interest rates.

The United States responded to the lack of action by the European Economic Community by selectively derogating from the repayment terms of the arrangement in November 1980. The Export-Import Bank lengthened the repayment terms of some loans, particularly where the French were involved, in order to make Ex-Im rates more competitive and to reduce the cost of the subsidies to the bank.

Progress in 1981

Substantial progress was made in 1981 in decreasing the amount of subsidy in official export financing. In August, France, Britain, West Germany and the United States agreed to fix the minimum dollar interest rate on aircraft sales at 12 per cent, a minimum French franc interest rate of 11.5 per cent and a minimum Deutsche Mark interest rate of 9.5 per cent for official direct credits. The maximum direct credit support available was set at 62.5 per cent or 42.5 per cent depending on the repayment schedules of private and

official financing. The limit on loan maturities was set at 10 years. The agreement will be effective until October 1982.

In October all 23 parties to the arrangement finally agreed to accept a proposal raising the minimum lending rates for all goods covered under the agreement. The minimum allowable interest rates on new export credit commitments (with old rates in parentheses for comparison), effective November 16, 1981, are listed in the box on this page.

The minimum interest rate in yen to be charged by the Japanese Export-Import Bank or other export credit agencies is set at 9.25 per cent since the Japanese market rates are lower than those of the matrix. Should commercial lending rates in other currencies fall below the levels provided in the above matrix, then export credit agencies are required to charge a minimum of 9.25 per cent for their loans.

The new agreement also includes substantially improved procedures for mixed credits. Official credits with a grant element between 0 and 25 per cent are subject to a prior notification period of at least 10 days, which allows other countries to compete and thus discourages its use for commercial advantage. Mixed credits with a grant element of over 25 per cent are subject to prompt notification, which means that countries must notify the OECD of the extent to which mixed credits with grant elements over 25 per cent are being offered.

The agreement went into effect November 16 for six months. The participants will meet again in March 1982 to review the entire arrangement, when the United States will again try to bring minimum interest rate levels

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closer in line with financial market rates prevailing at that time.

Conclusion

Although the latest round of negotiations to harmonize export credit practices was a success, the struggle to end subsidization of exports and official financing as an important ingredient in export competition is by no means over. Official export credit interest rates are still well below market interest rates in most countries, and no automatic trigger has been incorporated into the agreement to move official interest rates upward or downward as private financial market rates increase or decrease.

The United States, which opposes mixed credits because they increase the effective subsidization of exports and make the cost to government treasuries that much greater, still considers the arrangement's treatment of mixed credits to be inadequate. The United States essentially does not have a mixed credits program and would like to see all mixed credits with a grant element of less than 25 per cent abolished. The United States would also like mixed credits to be available only for the poorest countries.

France, on the other hand, strongly supports mixed credits as a channel for development assistance, and has a substantial mixed credits program. Recently, Australia, Austria, Belgium, Britain, Canada, Japan, the Netherlands, the Scandinavian countries and Switzerland have developed mixed credit programs in order to compete with the French.

The debate over whether countries should have mixed credits or not is likely to continue for some time. The United States, now faced with additional budgetary constraints, will not be able to meet mixed credits competition and will continue to oppose it. Those countries with mixed credits programs may decide that they are too expensive to continue. Or they may increase their programs with over 25 per cent grant element since it is one area of the arrangement not regulated as to interest rates, maturities and prior notification;

hence a good financing package could secure the transaction.

There are also a number of areas of export financing that the arrangement does not cover. Not all countries that offer subsidized export credits are participants of the arrangement. One of the most noteworthy changes in the nature of export finance in the last few years is the emergence of advanced developing countries as sources of manufactured exports that compete with exports of industrialized countries.

Comprehensive data is not yet available, but these countries do offer export credits to encourage and support their growing trade in manufactures. Seven developing countries have joined the Berne Union—Argentina, Hong Kong, India, Korea, Mexico, Pakistan, Israel and Singapore. In addition to the countries in the Berne Union, Yugoslavia, Taiwan and Brazil have well-developed export credit insurance and financing systems. A number of other developing countries are planning to institute or are beginning to offer programs of insurance coverage and/or preferential financing as a means of promoting faster industrial development. These countries include Jamaica, Panama, Bangladesh, Turkey, the Philippines and Morocco. Since these countries are not participants in the OECD arrangement, they are not subject to any constraints on the terms that they can offer in order to win a transaction.

There are some additional issues which should be addressed in the negotiations. Not all industrial sectors are covered by the arrangement or by the separate agreements. There are no agreements on financing of nuclear power and civil aircraft (e.g., helicopters) and as a result countries are not restrained on either interest rates or maturities that can be offered.

Overall, although it is certainly possible that official export subsidies and financing can be reduced as elements in export competition, no one should assume that these issues will be quickly resolved. Moreover, as noted above, there are other important issues which must be incorporated into the arrangement before products will be able to compete fairly on the basis of price, quality and other nonfinancial terms.

Mr. Fox. The Federal Reserve Bank of New York's current issue of its bulletin contains a lead article entitled, "Dollar Appreciation, Foreign Trade and the U.S. Economy." This article projects for 1983 a \$45 billion deterioration in U.S. trade performance, \$35 billion on the export side and a \$10 billion increase on the import side. This is based on the third quarter of 1980 figures being projected. That means a loss of over 1 million jobs on the export side alone, using the standard Commerce Department estimate of 32,000 jobs for each billion dollars of exports. I make no estimate for job loss related to the import visa, since no reliable figures are available.

Also note this: The 1 million jobs lost would reduce our current unemployment rate by 10 percent. In other words, from 9.8 percent to about 8.8 percent.

There are a number of reasons for failure to develop a competitive export financing system. One reason is a misunderstanding about the cost to the U.S. taxpayer of providing the Eximbank with adequate financing. The Eximbank ordinarily receives no direct tax dollars from the U.S. Congress to cover the loans and guarantees it makes, or other costs it incurs in implementing its program. Instead of appropriating funds for the Eximbank, Congress establishes a ceiling on the level of program activity that the Bank may engage in for each fiscal year.

I would like to refer and ask that you put in the record a copy of a resolution of the National Association of Manufacturers, dated December 3, 1981, on the subject of providing adequate funding for the Eximbank, including improved budget procedures to that end.

Senator HEINZ. Mr. Fox, without objection, so ordered.

[Copy of resolution follows:]



RESOLUTION

NATIONAL ASSOCIATION OF MANUFACTURERS

Whereas, U.S. exports now account for roughly 20% of U.S. goods output, and further expansion of U.S. exports can add materially to the health of U.S. industry and to the creation of new jobs in the economy; and

Whereas, the Export-Import Bank has served and can continue to serve a vital role in assisting U.S. exporters to develop and expand overseas markets for U.S. manufactured goods;

Resolved that the United States Government should develop a comprehensive export financing strategy which recognizes the needs of U.S. exporters for competitive financing and carries out more effectively the Export-Import Bank's statutory mandate to help provide such competitive export credits. This strategy should entail:

- providing the Bank with necessary budget authority and developing practices which adequately recognize the very limited impact of the Bank on the Federal Budget; and
- improving financial cover, as well as the other parameters of financing packages, offered by the Bank in support of export projects in industrial sectors whose exports are particularly dependent on long-term fixed rate direct credits; and
- developing new financial instruments which meet the changing needs of U.S. exporters in various industrial sectors and for various types of credits, as for example, the proposed International Equipment Trust as a way to finance commercial jet aircraft at market rates and market terms; and
- mobilizing longer-term private capital so as to help assure that internationally competitive export credit is more readily available to U.S. exporters regardless of size; and
- providing commercially competitive medium-term export credit which now is almost totally unavailable in the U.S. in contrast with foreign countries;

Further resolved that the U.S. government continue to seek as a matter of long-range policy the elimination of export credit subsidies through international negotiation and agreement. To help achieve this objective, the Export-Import Bank should be authorized to counter extraordinary financing practices of other countries.

December 3, 1981

Mr. Fox. Let me be clear at this point. We are not in favor of taking Eximbank off budget or out of control of Congress. Ideally, the best long-term solution to dealing with the Eximbank might be its inclusion in a binding Federal credit budget. NAM's vice president for tax and fiscal policy, Paul Huard, testified on this subject before the task force on credit and budget earlier this year.

However, the development of a binding Federal credit budget is hardly around the corner. Between now and then, a lot of manufacturing business and employment is going to be lost unless we establish competitive export financing systems in this country. It is doubtful that we are ever going to do so, however, if we are saddled with a budget process in which we seem to mix up assets and liabilities. Under such a system, every time we try to expand Eximbank and, hence, increase its net outlays, a red light is going to come up warning about the increasing budget deficit. It is important to pay attention to such red lights, but in this case, the light is malfunctioning. It is giving a signal with respect to a condition that does not exist.

Senator HEINZ. Mr. Fox, let me just be clear on something that you're saying there. On the one hand, you indicated that you're not in favor of taking the Eximbank off budget. That's the bottom of page 8. On the other hand, at the top of page 10, you say that "The change which S. 2600 would make in the budgetary treatment of Eximbank is the critical aspect of the legislation." And you expound at some length on the problem the present system does create for the Eximbank.

I'm not entirely clear what you think the right solution is.

Mr. Fox. I think the right solution at this time is to put the net outlays of the bank in the authorization budget. If you look at the chart, the first chart after page 5, with the total authorizations of \$12.8 billion, direct loans and guarantees, the actual net outlay figure would be \$2.07 billion. The \$2.07 billion would be included in the budget authorization.

POSSIBLE SURPLUS GENERATED BY EXIMBANK

I'd like to point out, if present trends continue, we will have a surplus again generated by Eximbank and that \$2.07 billion, instead of being a deficit, will be succeeded by something which will be a surplus. That would be the case if some of the present loans of the Bank get repaid at the high interest rates and if the Bank remains relatively modest in size over the next few years.

Now, of course, we are not looking for budget surpluses from the Exim at this time; quite the opposite. But I think the logic of the budget position I have expressed takes into account that there have been times in the past where the Eximbank is a net credit on cash flow, a plus to the budget rather than a deficit.

Senator HEINZ. Thank you very much. Please proceed.

Mr. Fox. At this point I would like to comment on the administration's policies toward export financing.

We have no illusions that S. 2600 will solve all of the problems of funding the Eximbank. The legislation really just recognizes the realities of the Bank's impact on the Federal budget and makes adjustments accordingly. It will not provide American exporters with

a stronger Eximbank if the administration is determined not to have one.

In this regard, we find encouraging a statement by Eximbank President, William Draper, contained in the latest Bank annual report: "The time is past when American companies can limit their sales to the domestic market and the time may never come when they can rely on the private sector to meet all of their needs for competitive financing."

This statement not only recognizes the vital link between international trade and domestic economic growth, but it also acknowledges the important role Exim has in insuring a competitive U.S. export financing system.

And we are pleased that this statement takes into account the role that exports can play in the revitalization of American industry, particularly in promoting new investment in the United States. We are, therefore, encouraged by the more realistic note that Mr. Draper has introduced in the administration's position on the Eximbank. On the other hand, these are words only. Budget and loan policy actions by the Bank are less encouraging.

BUSINESSES DISCOURAGED FROM APPLYING FOR LOANS

We note in particular the 2-percent user fee, other aspects of Eximbank lending, including the downpayment requirement, and other factors which have been referred to by other witnesses this morning which make the Eximbank substantially uncompetitive in credit in many areas. The Bank has simply discouraged U.S. business from applying for loans by charging higher rates than could be obtained abroad and financed a smaller portion of the total transaction price.

Of course, this has transferred business abroad, causing loss of American exports and loss of American jobs and has handed these jobs and the exports over to our foreign competitors on a silver platter.

As with past administrations, this administration has put a great deal of weight on international credit negotiations. As this subcommittee is well aware, there has been a succession of international negotiations on export credit, but the export credit war continues. This may be partly due to the fact that the perception of the United States as a paper tiger has yet to be seriously challenged, much less disproven.

To be sure, some progress has been made in these negotiations, but it is progress that has done little to foster U.S. economic interests. These interests can be achieved only by means of a two-path approach: providing the Eximbank with adequate funding and negotiating a sound and effective international agreement.

I personally doubt that we can achieve the latter unless it is clear that we have accomplished the former.

I would conclude, in the interest of time, Mr. Chairman, by stating that we favor two other provisions of your bill, the restructuring of the membership terms of the board of directors of the Bank and your proposals for competitive means to counter foreign predatory export credit practices.

Thank you.

Senator HEINZ. Mr. Fox, thank you very much. Gentlemen, may I say that your testimony has been, without exception, truly excellent. It represented an enormous amount of work. You have spoken for a variety of associations and groups. And with the information that we have, I am confident that we will have not only a good hearing record today, but we will be able to have an intelligent analysis of Exim policies and a better discussion of those policies with Mr. Draper this Thursday, leading, I trust, to a number of necessary changes in the authorizing legislation, the enabling legislation, for the Eximbank for the appropriate time next year.

There may be other members of the committee who wish to submit questions to you. I may have one or two on reflection. We will keep the record open for those questions. But let me express the appreciation of Senator Garn, Senator Proxmire, myself, and all the others who join you in wanting to have a competitive, viable Eximbank.

Thank you very much.

[Whereupon, at 1:20 p.m., the hearing concluded.]

EXPORT-IMPORT BANK PROGRAMS AND POLICIES

THURSDAY, SEPTEMBER 16, 1982

U.S. SENATE, COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS, SUBCOMMITTEE ON INTERNATIONAL
FINANCE AND MONETARY POLICY,

Washington, D.C.

The subcommittee met at 9:30 a.m., in room 5302, Dirksen Senate Office Building, Senator John Heinz (chairman of the subcommittee) presiding.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. Today we are continuing 2 days of indepth hearings on the performance of the Export-Import Bank over the last fiscal year. We will examine why the Bank failed to use nearly \$1 billion of direct loan authority granted by the Congress, the consequences of this and other policies of the Bank, the role of the Bank in our export strategy, and what changes may be necessary in the Bank's charter when its renewal is considered next year.

As I said on Tuesday, the Export-Import Bank began fiscal year 1982 with uncompetitive terms in its direct loan programs. The percentage of participation in loans which the Bank offered to cover was woefully inadequate, and the effective interest rates were hundreds of basis points above the rates offered by the official credit agencies of our major trade competitors. On Tuesday we received testimony indicating billions of dollars of exports lost as a result of the Bank's restrictive policies.

This Senator and others seriously questioned the wisdom of the Bank's restrictive policies, but few predicted that the Bank would be as far behind in its direct credit support for U.S. exporters as it currently is. On Tuesday I stated that the billion dollar shortfall in Eximbank direct lending in a time of heightened need for export credits suggests a deliberate policy of idleness in a time of emergency—the modern equivalent of fiddling while Rome burns. Hopefully the testimony today will suggest some of the reasons for this policy and what steps might be taken to insure that the Bank fulfills more adequately its responsibility to provide the full level of competitive financing for American exports directed to by the Congress.

The necessity for this support is made abundantly clear when corporations such as Bechtel, Caterpillar, and others, are placing their export orders through their foreign offices, because interna-

tional competition makes it impossible for them to operate successfully in world markets from the United States.

Caterpillar America's Co. testified on this on Tuesday, and we will receive further evidence today from Mr. William Trammel, representing the National Constructors Association.

The Export-Import Bank is an independent agency of the U.S. Government. As such, it is responsible to the Congress, which granted it its charter and authorizes the level of its various export support programs. When the Congress makes a determination that a certain level of direct loan authority will be needed by American exporters in a given fiscal year, I do not see any latitude for an official at the Eximbank or down at the Office of Management and Budget to subsequently formulate policies that result in frustrating the clear intent of the Congress, particularly when the consequences in terms of jobs lost, business foregone, and production transferred overseas, are so severe.

As I stated on Tuesday, and as much of the testimony has corroborated, the United States is currently engaged in a fierce global economic competition with our economic and strategic national welfare at stake. The Export-Import Bank is in the position to play a powerful role in assuring our success in that competition, but the Bank will do us no good unless it is aggressively used.

Now, I would like Bill Brock, our U.S. Trade Representative, to please proceed with your testimony and, Bill, we're delighted to have you here.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Mr. BROCK. Thank you, Mr. Chairman.

Before I begin, I'd like to just express my gratitude to you for your constant leadership and interest in the subject. It's a matter of intense concern within the sense of what we're trying to achieve in overall trade policy. I know of your leadership on the subject and I'm very, very grateful for that leadership.

[Complete statement follows:]

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to appear before you today to discuss the trade policy implications of U.S. export credit activities over this past year, and to present some initial thoughts on proposals to shape Eximbank's reauthorization legislation.

I am pleased to be able to state at the outset, that as a combined consequence of reforms in the OECD Arrangement on Export Credits, and changes in Eximbank lending policy, U.S. export financing programs are now generally competitive with those programs available from the foreign competition. Over the course of the year, we have made substantive progress toward reducing trade-distorting export credit subsidies through (1) reform of the OECD Arrangement interest rate matrix, (2) a reclassification of borrowing countries, (3) the adoption of a differentiated interest rate system for low interest rate countries, and (4) the imposition of further limits on predatory mixed-credit financing. Eximbank, too, instituted policy changes that brought U.S. financing rates and terms closer in line with those of the OECD Arrangement.

Further, through the Bank's policy of selectively targeting its resources for those export transactions where competitive financing terms are an essential element of a purchase decision, lengthening the financing terms and increasing coverage where appropriate, Eximbank has enhanced the ability of key U.S. industries to secure competitive access to the international market.

In spite of this forward movement, we continue to be challenged by a number of financing-related problems. For example, the use of subsidized financing in support of sales within the U.S. market, mixed-credit financing, and present gaps in coverage of the OECD Arrangement provide foreign governments with the opportunity to distort normal market forces through the use of credit subsidies. We are attempting to address these problems within the framework of an overall strategy designed to neutralize the distortions these foreign export credit subsidies engender. This strategy involves putting foreign governments on notice that access to the U.S. market is predicated upon compliance with international obligations embodied in the GATT and OECD Arrangement, as well as U.S. countervailing duty law. It includes continued aggressive efforts to renegotiate sectoral agreements for civil aircraft and nuclear power plant exports and to reform further the OECD Arrangement. Finally, it involves selectively matching and thereby neutralizing foreign credit subsidies in both the U.S. and third-country markets. The Eximbank has, and should continue to, play an important role in the effective implementation of this strategy. It is precisely this role that I would like to address my remarks to now.

EXIMBANK AND U.S. TRADE POLICY

Mr. Chairman, the assurance of competitive access to the international market for U.S. industries is an essential component of the Administration's program for economic recovery. It also provides the foundation and direction of U.S. trade policy. Yet the achievement of competitive access hinges ultimately upon our ability to create an international economy where trade flows reflect natural competitive advantage and not government manipulation of the conditions of trade. Unfortunately, our views on the merits of a market-oriented economy are not necessarily shared by all members of the trading community. Even as we move toward further liberalization of the world trading system, we are challenged by a plethora of trade distorting practices designed by foreign governments to maximize the short-term benefits to their individual economies. Over the longer-term, these practices serve only to divert capital from its most efficient use, with the associated reduction in benefits to the world economy as a whole.

One of the most serious distortions to the free flow of trade is subsidized export credit financing. In an attempt to expand access to both the United States and third country markets, some governments have been increasingly tempted to compensate for noncompetitive exports through heavily subsidized financing packages. As market rates of interest have soared worldwide, the latitude for subsidization through inexpensive official export financing has increased dramatically. Price, technology, and other factors in the competitiveness equation have often become subordinate to the rates and terms of export financing packages, particularly with respect to sales of big-ticket items such as power generation equipment, large commercial transportation systems, and turnkey projects.

Mr. Chairman, we do not envision the Eximbank as a macroeconomic policy tool to rectify the trade imbalance. Rather, from a microeconomic perspective, Eximbank is an important element in ensuring that key U.S. industries have competitive access to markets, both foreign and domestic, and that they can subsequently develop the economies of scale and generate the profit structure necessary for efficient and competitive production in the future. By and large these industries are those that produce the highly complex, technologically advanced products requiring hundreds of millions of dollars in research and development to bring out new models. Generally, these products have a long useful life which requires elaborate maintenance and technical service support. In essence this means that should you win the initial sale, you also secure the major follow-on sales. Exports of these products also means employment for the highly skilled in our economy, as well as the potential technological spinoffs into new product fields. Our future position as an industrial leader hinges in no small way upon the continued competitiveness of these industries.

In a nutshell, I would characterize Eximbank's role in trade policy as two-fold: In the first instance Eximbank provides us with the muscle necessary to convince our trading partners of the foolishness and costliness of the export credit subsidy race. In addition, EXIM enables us to ensure that by providing official credits directly or facilitating private capital for export sales, the competitiveness of key U.S. industries in the United States and foreign markets is not compromised by foreign official export credit financing.

EXPORT CREDIT ACTIVITIES IN 1982

Mr. Chairman, a review of export credit activities over this past year provides us with a clear illustration of two financing related problems intimately linked to an economic environment characterized by high market rates and high levels of foreign credit subsidies. First, U.S. competitiveness in third-country markets was weakened to some extent by U.S. Government financing that was less highly subsidized than that provided by some other governments. Second, we witnessed the disadvantageous position a U.S. industry is placed in when competing in our own market against foreign bidders who have access to official financing at subsidized rates and terms not available to the U.S. firm.

In recent years, largely in response to the private market's inability to provide financing comparable to that available from national governments, Eximbank's role has expanded to include the provision of interest support in order to offset the advantaged hoped to be gained by foreign exporters through such subsidies. This is in addition to its traditional program areas of risk assumption and capital availability. The operation of a competitive interest support program has not been without substantial cost to Eximbank. As borrowing costs have ranged well above the Bank's average lending rates, Eximbank's position as a self-sustaining institution has been jeopardized. In an effort to offset these enormous costs, Eximbank last year instituted changes in its lending policy, raising its interest rate several percentage points above the minimum OECD rates and imposing a 2 percent credit conversion fee on all transactions. Eximbank has been able to compensate in many instances for the higher interest rate on its lending through aggressive use of its ability to lengthen repayment terms on loans and by offering to guarantee foreign currency loans.

Yet, in spite of the adoption of these innovative policies, there have been costs to pursuing this course: some export sales have been lost and an acceleration in the trend toward foreign sourcing was documented due to higher subsidy levels available to the foreign competition.

In our own market, we have witnessed distortions to the free flow of trade resulting from foreign export credit subsidies. The proclivity of foreign governments to provide subsidized export financing to U.S. purchasers has, in a number of instances, placed the U.S. firm at a serious disadvantage when competing for domestic market sales. U.S. firms typically do not have access to long-term, fixed-rate financing at subsidized rates and terms and consequently may not be competitive, particularly when bidding on big-ticket sales where financing terms are a key factor in the purchase decision. Probably the most noteworthy example of this problem was the decision by the New York Metropolitan Transit Authority (MTA) to purchase 825 self-propelled subway cars from the Canadian firm, Bombardier Inc., in large part because of the Canadian Government's offer of officially subsidized credit. From our discussions with industry, the MTA case is not an isolated instance of this problem, but may be indicative of a growing trend.

My objective in outlining the consequences to trade flows of unchecked foreign export credit subsidies is to illustrate that the United States did incur some short-term costs for our leadership role in reducing and hopefully eliminating export credit subsidies. I believe the changes in Eximbank lending policy coupled with substantial improvements in the OECD Arrangement will significantly improve the competitiveness of U.S. exports. The Eximbank and Treasury Department should be praised for their efforts in this area. In addition, our increasing awareness of the extent and nature of foreign subsidized financing on sales within the U.S. market will enable us to help ensure that U.S. industries have effective and timely relief from injurious export credit subsidization.

THE FUTURE OF OFFICIAL EXPORT FINANCING PROGRAMS

Mr. Chairman, the fact that the Eximbank charter expires in September of 1983, affords us the opportunity to ensure that Eximbank is instrument to support trade policy so that we can best meet the competitive challenges of the eighties. Today I would like to highlight two areas that I believe need to be deliberated as we proceed in the consideration of the Bank's charter.

First, I would hope that there be a greater recognition of the importance of competitive export financing programs to the achievement of U.S. trade policy objectives, specifically our goal to secure competitive access for U.S. industries to foreign markets. Still fresh in our mind should be the recollection that export credit subsidies do in fact, distort competitive trade patterns.

Second, we must develop a greater awareness of the longer-term role to be played by the Eximbank. As we have become enveloped in the export credit subsidy race, the other important functions of the Bank, namely risk assumption and capital

availability, have been somewhat overshadowed. Yet, in an increasingly risky credit environment, it is these function that will provide the longer-term focus on the Bank's activities and the rationale for an Eximbank long after the export credit subsidy race has come to an end. This will involve Eximbank in the role of facilitating the use of private capital to fund export sales rather than providing the export financing itself.

Finally, I would note that we are involved in discussions as to what amendments, if any, are necessary to ensure that the linkage between Eximbank activities and trade policy interests is sufficiently strong. As part of this process, we are involved in consulting with our private sector advisory committee on export finance and our industry sector and labor advisory committees to ensure we have incorporated their views in our position on Eximbank Charter renewal.

CONCLUSION

Mr. Chairman, cognizant of the important role to be played by the Eximbank in furthering the Administration's economic and trade policy goals, we support the extension of Eximbank's statutory authority until September 1988. We do so with a view toward shaping an Eximbank that will enable us to meet the competitive challenges of the marketplace today, and tomorrow. The experience that we have gained over this past year, both in terms of our analysis of the importance of export financing to the competitiveness of key industry sectors and through witnessing the variety of ways in which to neutralize the distortions of foreign credit subsidies, will provide us with a guide toward this end.

Thank you.

Mr. BROCK. Thank you very much.

Senator HEINZ. Mr. Ambassador, we thank you. I note one, to my mind, particularly accurate statement on page 6 of your statement. You say that:

Yet, in spite of the adoption of these innovative policies, there have been costs to pursuing this course: some export sales have been lost and an acceleration in the trend toward foreign sourcing was documented due to higher subsidy levels available to the foreign competition.

U.S. COMPANIES USING FOREIGN SUBSIDIES

We heard on Tuesday many more instances of those job losses, sales losses, market share losses, still more examples, unfortunately of U.S. companies that could have been doing the business here going to a subsidiary in some other country to obtain the financing from that country. The cost of the policy of the last year have been substantial; indeed I would say they have been enormous.

My question to you is, have we been successful in eliminating foreign subsidies for export sales?

Mr. BROCK. No; but we have made a good deal of progress.

Senator HEINZ. For the future, do you think we should continue to pursue a policy where we, by attempting to set a good example for the rest of the countries of the world that don't subsidize, keep our export credits sufficiently modest so the Eximbank makes lots of money with respect to how high interest rates are? Should we continue, in effect, a policy of unilateral good behavior as indeed I think one could say we've done over this last year, or should we try where we see the foreign competition subsidizing and engaging in predatory practices, try and meet fire with fire? What policy should we follow for the future?

I see you lit your pipe and I see some smoke. The question is, is there fire where there's smoke?

Mr. BROCK. Just the threat. I'm a great believer in unilateral good behavior, but I'm also a believer that there are times when

you have to get your friendly competitors' attention and once in a while it takes a 2 by 4.

Senator HEINZ. So you would say that for the future our policy should be that the Bank should be competitive, and if necessary it should have the wherewithal to meet—and, if it takes this to teach other people the lesson that we're serious, beat-enough instances of predatory credit financing practices so people will say, "We'd better stop that; it's not going to lead us anywhere." That is the policy we ought to pursue in the future?

Mr. BROCK. I think so. I think there has been a particularly difficult tension in the mandate of the Bank to provide competitive financing and at the same time remain a self-sustaining institution. We have had a drain on our resources because our borrowing costs have been greater than our lending deals. As a consequence, there's been some drain on the Bank's resource capital pool. You can do that for a period of time but there are limits to it and it's made it very, very difficult for the Eximbank and I have a great deal of sympathy for the job they've tried to do.

Senator HEINZ. You mentioned another very significant threat to this country. You mentioned, as an example, the Bombardier case where foreign subsidized export credits are being used to finance big ticket sales to this country.

Mr. BROCK. Right.

Senator HEINZ. You and I have been through a few discussions in hearings on this in the Committee on Finance. Do you think we need additional legislation to deal with that problem?

Mr. BROCK. I really don't. Section 1912 is very carefully drawn and very nicely drawn to let us deal with that. I think a number of steps have to be taken.

First, we have to express a willingness to use section 1912 and I'd like to do so today.

Second, we have to apply not just international law but U.S. domestic law. The problem, as you well know, the Budd Co. has filed a case to proceed with the preliminary findings that was at least on the surface favorable, but beyond that, I think it is necessary for us to pursue our complaint against this practice in the international organization of GATT because we have to oppose these sort of things on all three fronts. If we do that, then perhaps we can reduce the exercise or the abuse from it.

PROBLEM WITH THE CURRENT LAW

Senator HEINZ. The problem with current law, let alone section 1912, is that it only operates after the fact, after the loss of the sale has taken place. If you win ultimately—6 months or 12 months later—what sometimes is the case is some kind of indemnification has been worked out or someone will convince someone else what you're proposing to do was unrealistic. The damage has been done. It's too late to undo the damage; and it isn't like a manufactured item that comes in repeatedly and on which you can impose anti-dumping or countervailing duties for the future to which there is obviously a clear price and therefore an effective deterrent.

One idea that's been advanced would be to prevent the sales of these large ticket items on a subsidized basis by creating a rebutta-

ble presumption of injury on the part of any domestic competitor which the foreign seller would then have to disprove. What would be your reaction to such a proposal?

Mr. BROCK. We have looked at a couple of suggestions of that sort and I guess I'm a little reluctant to take a categorical position yet until we've completed our analysis and have had a chance to talk to a lot of our industry advisory groups to look at the specific way that it might impact on them and their ability to compete.

But I guess at the moment I would hope we would not take that kind of action until we're very sure that it in fact is necessary and will yield the kind of results we hope for. There is no reason that section 1912 has to be after the fact. It can be done before the fact on the predicate that the law I think was written, that is, that when predatory financing occurs below that allowed by international agreement or U.S. law, that Eximbank can be authorized by Treasury to match those terms.

Senator HEINZ. There's a potential flaw in section 1912, perhaps, and that is that the interpretation of section 1912 given today by the Treasury Department seems to be that it is up to the Treasury Department to decide in their total discretion, in effect, whether or not the matching of an offer would be a determining factor in the sale.

Now whoever is getting the benefit of the subsidized purchase—in this case, the Metropolitan Transit Authority of New York—has a tremendous vested interest in making sure they get the best possible deal. If we were in Mr. Ravitch's shoes we would feel the same way. So there is a built-in pressure to marshal every conceivable fact, lawyer, pressure group, go down to the U.S. Treasury and say,

Oh, I swear, I mean even if these other American companies had the same financing deal, they just make a terrible product, they build things out of steel when they should be out of aluminum or aluminum when they should be out of steel, and they go two miles an hour too slow and we have to maintain our schedules and just believe me, Mr. Secretary of the Treasury, we wouldn't have bought Bud or anybody else in a million years.

That is very close to what happened. Now how do we deal with that?

Mr. BROCK. Well, somebody has to make the decision. Treasury probably is in the best position of any to evaluate those arguments on the merits.

Senator HEINZ. May I interrupt? Treasury has a vested interest. It is true of every Treasury Department. They want to raise money, not spend money. Who was it who was coming down to the Senate Committee on Finance urging us to raise taxes this year? The Treasury Department.

Let me pose this question. Is it possible—is it conceivable that in vesting the administration of this authority in the Treasury Department perhaps we have vested it in an agency, well-meaning of course, but one which has a genuine and perhaps even necessary conflict of interest?

Mr. BROCK. It is conceivable and in some prior instances before this administration took office I think it perhaps could have been the case. Let me look at it from the point of view of a really good Treasury Department which says, of course, it's a short-term out-

flow of funds, but when you have that outflow of funds to maintain the competitive circumstances of U.S. companies and the application of those funds is going to create jobs and economic growth and industrial development and the capacity for further improvement in our productivity and R&D, then the net benefit to the Government may be to make that short-term investment because it's not an expenditure but an investment which will yield a return.

I think the whole case for the Eximbank is that, depending upon the kind of industry being financed, the additionality of employment that we get from Eximbank lending yields a return not just to the workers of this country but to the Federal Government who is financed by the taxes those workers pay.

So if we look at it in a dynamic model—and this administration has been preaching supply-side economics—we had best practice it, that means that these kind of loans that do net an additionality of 70 or 80 percent, depending on who you believe, but at least that much, that those investments do return 5, 10, 15 times the amount expended to the Treasury. So it's a good investment and if the Treasury is looking at it in a dynamic mode, it could be very supportive of that kind of decision, not negative.

Senator HEINZ. That sounds like a good argument for a lot of things that we wanted to do this year with the Eximbank and some things that Senator Lugar wanted to do on housing, a lot of cost benefit, good favorable benefit to cost ratio, with his legislation. I hope you're right.

Mr. Ambassador, let me just say in conclusion, you've been an excellent witness. We're delighted to have you here. May I say further, this is an oversight hearing on Eximbank and we're not going to develop and enact as a direct result of this hearing legislative changes in the authority of the Eximbank. However, that does come up next year. We do hope as a result of these oversight hearings and hearings next year to develop proposals which we will then in turn subject to public scrutiny. We look for proposals from you and I note from your testimony and remarks that you've given a good deal of serious thought to some of the things we've talked about and some other things as well.

Mr. BROCK. Our Eximbank is very important to us in our trade policy, Senator. We appreciate your support and your interest in it. It might not be remiss to mention that just this morning I had an example of why I put so much emphasis on this institution. I had breakfast with the Trade Minister of the Philippines and he told me of some instances of lost U.S. sales within the last few months because of competitive financing from Japan in that particular case, but we simply have to be competitive in the world today. We live in it, it's the real world and we don't have a choice. We can't walk away from it.

EXIMBANK MUST BE COMPETITIVE

Senator HEINZ. One last question on that point. Do you feel that there is room for any confusion on that point as you read the authorizing legislation, in particular section 2, that the principal, primary, indeed overriding mandate of the Eximbank is to be competitive? Because we have had people—and I think Mr. Draper

may also say this—people come up to us and say, no, that mandate is very, very much qualified and we must make sure that the Bank really doesn't lose any money and that irrespective of the fact that the Bank has made money every year since 1945 or so, each year we've got to make money; we can't afford a loss year. That has been said and some of the policies of the Bank have been justified on that basis.

Should we make it clear that we want a competitive Bank?

Mr. BROCK. Well, I mentioned earlier my sympathy for the dichotomy of the Eximbank mandate between maintaining the self-sustaining capability and meeting the competitive mandate established by the Congress. I think they have done a remarkably good job of trying to fill both of those responsibilities. The Eximbank has been willing to take a loss and they have suffered such a loss under the double duress of the world explosion in interest rates and the increase in export financing subsidy on the part of other governments. But in trade policy terms, Mr. Chairman—and I will not speak to the financial question because that goes to a different issue—but in trade policy terms, my emphasis would be on being competitive. It has to be.

Senator HEINZ. Mr. Ambassador, thank you very much.

Mr. BROCK. Thank you very much.

Senator HEINZ. Our next witness is Chairman of the Export-Import Bank, Mr. Bill Draper.

STATEMENT OF WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, THE EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. DRAPER. Mr. Chairman and members of the subcommittee, thank you for inviting me to be here today to review Eximbank's policies after my first year at the Bank. I also welcome the opportunity to give you Eximbank's views on the provisions that are contained in S. 2600.

Since I became Chairman of Eximbank in July 1981, we have provided our greatest support to U.S. exports facing the most intense foreign competition, we have worked to improve the Bank's financial position and we have been part of the Reagan administration team that was successful in reaching agreement to raise the interest rates charged by foreign export credit agencies and to reduce the subsidies in official export financing.

LONG-TERM DIRECT LOAN PROGRAM

So far in fiscal year 1982 almost 90 percent of the requests for preliminary commitments considered by the Board have been approved, and we have provided extra help where it was most needed. In fact, with the exception of the Taiwan Power Co. case, we will use all of our budget for the long-term direct loan program.

The Bank's normal financing share of 65 percent of a transaction's export value has frequently been increased. During fiscal year 1982, 36 percent of the direct loan transactions and 54 percent of the preliminary commitments approved by the Board included an Eximbank loan of 75 percent or more, and many also included a financial guarantee of 10 percent supplier participation, raising the Bank's share to 85 percent.

Since sources of long-term financing are less readily available to other official export credit agencies, an even more effective way of meeting the competition has been for Eximbank to derogate from the OECD guidelines and extend repayment terms. We have done so on 34 occasions.

Let me turn briefly to the transaction which involved the purchase of two nuclear powerplants by Taiwan Power Co. Eximbank engaged in negotiations for more than 2 years in an effort to assist American companies to win this important project. To counter intense foreign competition for the sale, Eximbank improved its offer four times and ultimately offered a 75 percent Eximbank direct credit and a 10 percent Eximbank guaranteed supplier participation to support a total U.S. export value of \$1,140 million. Taipower stated last spring that U.S. suppliers had won the order, but announced recently that the project has been delayed for 2 years because of economic conditions in Taiwan.

In addition to increasing financing shares and lengthening repayment terms for individual transactions, we are using our programs in innovative ways. Because domestic interest rates in Japan are well below the interest rates of other countries, export financing in yen can carry a lower interest rate than financing in other currencies. Under a new Eximbank program, U.S. exporters now have the choice of offering their prospective purchasers either a dollar loan from Eximbank or a yen loan guaranteed by Eximbank.

Effective October 1, 1982, a new medium-term credit facility will be made available to neutralize the impact of subsidized financing. This facility will be funded from the Bank's regular loan budget and will be targeted to the most competitive transactions typically supported in the supplier credit guarantee and insurance programs—sales of products which are appropriately sold on terms of 1 to 5 years.

SPECIAL EFFORTS TO ASSIST SMALL EXPORTERS

We have also been making special efforts to assist small exporters by providing greater coverage under our insurance programs than is available to other exporters. In addition, in fiscal year 1982 a portion of our discount loan program was made available for individual export sales under \$2.5 million by small manufacturers. In fiscal year 1983, the entire \$100 million budgeted for the discount program will be allocated to small company exports.

One of our principal efforts during the last year was the negotiation on export credits which resulted in substantial movement toward market rates under the international arrangement. For example, a year ago, the rate most commonly offered by the Bank's counterparts was 7.75 percent; today, the comparable rate on new offers is approximately 11 percent, an increase of 42 percent which has enabled us to reduce the subsidy in Eximbank's loans by 66 percent. Perhaps even more important than the increase in interest rates is the reclassification of categories into which the countries of the world are divided. Many of the countries in which Eximbank does the bulk of its business will now fit into the intermediate category—Brazil, Mexico, South Korea, Taiwan, Nigeria, Morocco, and Peru. The international arrangement minimum for

these countries is 11.35 percent which is very close to Eximbank's own interest rate of 12 percent. Our studies show that U.S. suppliers can remain competitive as long as we offer financing which is within 100-150 basis points of the rates charged by other countries.

For fiscal year 1983, we are asking for \$3.83 billion for direct loan obligations, which includes \$3.73 billion for regular loans and \$100 million for discount loans, and \$8 billion for guarantees and insurance. We carried out extensive economic studies which show that the level of Eximbank credit needed to support nonaircraft and nonnuclear transactions next year will be below the fiscal year 1982 level. With little likelihood of new orders for nuclear powerplants outside of the OECD countries and aircraft demand likely to remain low, the resources requested by Eximbank for fiscal year 1983 should be adequate to the demand placed upon them.

PROVISIONS OF S. 2600

I would like now to run briefly to the provisions of S. 2600. The bill would extend the charter of the Bank from September 30, 1983, until September 30, 1988. Eximbank is strongly in favor of this provision. A 5-year extension is consistent with past practice. It provides enough time so that U.S. exporters can rely upon the continued existence of the Bank, while at the same time it permits the Congress to review at regular intervals the fundamental policy decisions affecting the Bank.

Under another provision of the bill, each director of the Bank would be appointed by the President of the United States for a fixed 4-year term. Eximbank believes that fixing the terms of the directors is both potentially harmful and unnecessary. As Chief Executive charged with the conduct of foreign policy, the President has unique responsibilities for formulating and carrying out U.S. international trade policy. Financing is a critical element of that policy, and Eximbank has a key role to play within the administration. While decisions to provide Eximbank support are made on the basis of objective commercial or financial factors specific to a particular transaction, they must also be examined within the context of overall foreign policy. The Eximbank Board of Directors must remain fully responsive to the directives of the President and the requirements of the administration's program.

A third provision of the proposed bill would remove Eximbank from the Federal budget. We do not believe it is appropriate as a matter of sound fiscal policy for the Bank's receipts and disbursements to be removed from the Federal budget. Such an action would not significantly enhance the existing flexibility of the Bank. It would, however, loosen controls over the budget process as it relates to Eximbank and could result in Congress having an incomplete picture of the total amount of Federal credit assistance made available during any fiscal year.

Finally, the proposed bill would establish a fund to offset foreign export competition for manufactured and agricultural goods. As I mentioned earlier, as a result of our successful international negotiations, European and Japanese suppliers should not have any edge on financing over their counterparts in the United States. Therefore, the special fund is not required at this time, and we

would come back to Congress if it is needed. I am confident that in the future we will continue to make progress in eliminating export subsidies altogether.

Mr. Chairman, that concludes my remarks. I am ready to answer any questions that you or the members of your subcommittee may have. Thank you very much.

[Complete statement of Mr. Draper follows:]

STATEMENT OF WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT
BANK OF THE UNITED STATES

Mr. Chairman and Members of the Subcommittee: Thank you for inviting me to be here today to review Eximbank's policies after my first year at the Bank. I also welcome the opportunity to give you Eximbank's views on the provisions that are contained in S. 2600.

Eximbank has been in existence for almost fifty years. While its principal mandate has always been to provide financing in support of U.S. exports, the way in which it implements that mandate has had to change with changing domestic and international economic conditions.

When I became Chairman of Eximbank in July 1981, the Bank was losing money, the demand for long-term financing so far exceeded the Bank's lending authority that a moratorium on new authorizations had been in place for five months, and American exporters were hard pressed to compete against the heavily subsidized financing terms offered by the Europeans and the Japanese.

During the past year, we worked to improve the Bank's financial footing, we provided our greatest support to those exports facing the most intense foreign competition, and we were part of the Reagan Administration's international negotiating team that was successful in reaching agreement to raise the interest rates charged by foreign export credit agencies and reducing the subsidies in official export financing.

We carefully attempt to assess the financing needs of a U.S. supplier for a particular export transaction. I am pleased to report that, in fiscal year 1982, we have approved almost 90 percent of the requests for preliminary commitments considered by the Board, and we have provided extra help where it was most needed.

We have frequently increased the Bank's normal financing share of 65 percent of a transaction's export value. During fiscal year 1982, 36 percent of the direct loan transactions and 54 percent of the preliminary commitments approved by the Board included an Eximbank loan of 75 percent or more, and many also included a financial guarantee of 10 percent supplier participation, raising the Bank's share to 85 percent.

Since sources of long-term financing are less readily available to other official export credit agencies, an even more effective way of meeting the competition has been for Eximbank to derogate from the OECD guidelines and extend repayment terms. We have done so on 34 occasions.

In one highly competitive transaction, the proposed purchase of two nuclear powerplants by Taiwan Power Company, Eximbank was involved in negotiations for more than two years in an effort to assist American companies to win this important project.

To counter intense foreign competition for the sale, Eximbank improved its offer four times during the period from September 1981 to March 1982. In September 1981, we offered a 42.5 percent financial guarantee covering the Nuclear Steam Supply System and the turbine generators. In December 1981, we increased the level of Eximbank support to a 65 percent direct credit and a 20 percent financial guarantee to cover the Nuclear Steam Supply System, turbine generators, and the extensive balance of plant equipment and engineering services, for a total export value of \$1,140,000,000. Our level of support was further increased in March 1982 with the approval of a 75 percent Eximbank direct credit and a 10 percent Eximbank guaranteed supplier participation.

Taipower stated last spring that U.S. suppliers had won the order, but announced only recently that the project has been delayed for two years because of economic conditions in Taiwan.

Our targeting policy has been successful in providing U.S. companies with the extra push needed to win the toughest orders, and has also enabled us to plan the most efficient utilization of our budgeted authority. This year, we will use all of our budget for long-term direct loan program, except for the amount we necessarily had to set aside for Taipower.

We have been innovative in developing Japanese yen financing for U.S. exports. Because domestic interest rates in Japan are well below the interest rates of other countries, export financing in yen can carry a lower interest than financing in other currencies. The minimum blended rate for officially-supported yen export credits is .3 percentage points above the Japanese long-term prime rate, which is now 8.9 percent.

In 27 long-term credit transactions, we have enabled American exporters to offer two financing plans to their prospective buyers: a dollar loan from Eximbank or a yen loan guaranteed by Eximbank. In one case the purchaser has selected the yen option. In others, the decision has not yet been made. In each instance, the ability to provide the choice has improved the American firm's ability to compete against exporters from Japan and other countries.

Our financing assistance is not limited to long-term direct loans, and effective October 1, 1982, a new medium-term credit facility will be made available to neutralize the impact of subsidized financing. This facility will be funded from the Bank's regular loan budget and will be targeted to the most competitive transactions typically supported in the supplier credit guarantee and insurance programs: sales of products which are appropriately sold on terms of one to five years. As in the direct loan program, for each of these transactions we will be looking for evidence of credit competition, especially competitive bidding situations involving public buyer in developing countries. Eximbank's interest rate will be the same as in the direct loan program.

We also make special efforts to assist small exporters. Under our small business insurance program, the Foreign Credit Insurance Association offers coverage against the political and commercial risks of non-payment on a small exporter's foreign sales that is higher than the coverage provided under standard insurance policies. The response to this program by the small business community has been strong. In the four years that the program has been available, more than 400 policies have been issued to exporters in 33 states and the District of Columbia, and several dozen more applications are currently under review.

During the past year, a portion of our discount loan program was made available for individual export sales under \$2.5 million by small manufacturers, and in FY 1983, the entire \$100 million budgeted for the discount program will be allocated to small company exports.

One of our principal efforts during the last year was the negotiation on export credits. The Administration's negotiating efforts resulted in substantial movement toward market rates under the International Arrangement. For example, a year ago, the rate most commonly offered by the Bank's counterparts was 7.75 percent; today, the comparable rate on new offers is approximately 11 percent, an increase of 42 percent. The increases in officially-supported rates together with decreases in market rates have enabled us to reduce the subsidies in Eximbank's loans by 66 percent, while continuing to provide American companies with fully competitive export financing.

Under the revised International Arrangement, effective July 6, 1982, the minimum rate for long-term credits (more than five years) to relatively rich countries increased to 12.4 percent. The long-term rate for credits to intermediate countries was set at 11.35. Countries moving up from the relatively poor to the intermediate category are eligible for a interim rate of 10.75 percent until January 1, 1983, when they will also move to 11.35. Eximbank is keeping its rate at 12 percent for these countries. The rate for credits to relatively poor countries remains at 10 percent, and Eximbank has lowered its rate for these countries from 12 percent to 11 percent.

Perhaps even more important than the increase in interest rates is the reclassification of categories into which the countries of the world are divided. The relatively rich category now consists of countries with a 1979 per capita GNP of \$4,000 or more. Relatively poor countries are those eligible for IDA financing. All remaining countries fall into the intermediate country. These include the market in which Eximbank does the bulk of its business: Brazil, Mexico, South Korea, Taiwan, Nigeria, Morocco and Peru. Eximbank's 12 percent is very close to the 11.35 percent to be charged by others. Our studies show that U.S. suppliers can remain competitive as long as we offer financing which is within 100 to 150 basis points of the rates charged by other countries.

For fiscal year 1983, we are asking for \$3.83 billion for direct loan obligations, which includes \$3.73 billion for regular loans and \$100 million for discount loans, and \$8.0 billion for guarantees and insurance.

We have carried out extensive economic studies which show that the level of Eximbank credit needed to support non-aircraft and non-nuclear transactions next

year will be below the fiscal year 1982 level. We do not believe there will be any new orders for nuclear power plants outside of the OECD countries for the second year in a row. Finally, while aircraft demand is likely to pick up significantly from the depressed fiscal year 1982 level, it will still remain well below both the fiscal year 1981 level and the anticipated level of annual demand once airlines around the world return to profitability. Consequently, the resources requested for fiscal year 1983 should be adequate to the demands placed upon them.

I would now like to turn briefly to the provisions of S. 2600. The bill would extend the charter of the Bank from September 30, 1983, until September 30, 1988. Eximbank is strongly in favor of this provision. A five-year extension is consistent with past practice. It provides enough time so that U.S. exporters can rely upon the continued existence of the Bank, while at the same time it permits the Congress to review at regular intervals the fundamental policy decisions affecting the Bank.

Under another provision of the bill, each director of the Bank would be appointed by the President of the United States for a fixed four-year term. The terms of the directors would be staggered so that the term of office of the Chairman, Vice Chairman, and another director would coincide with the terms of office of the President of the United States. The terms of the other two directors would expire two years later. Eximbank believes that fixing the terms of the directors is both potentially harmful and unnecessary.

As Chief Executive charged with the conduct of foreign policy, the President has unique responsibilities for formulating and carrying out U.S. international trade policy. Financing is a critical element of that policy, and Eximbank has a key role to play within the Administration. Furthermore, Eximbank is not a regulatory agency engaged in rule-making or adjudication. While decisions to provide Eximbank support are made on the basis of objective commercial or financial factors specific to a particular transaction, they must also be examined within the context of overall foreign policy. Such policy considerations must be addressed by the Bank in close coordination with the Departments of State, Treasury and Commerce and the United States Trade Representative and the Federal Reserve. For the Bank to function effectively, the Board of Directors must be responsive to the directives of the President and the requirements of the Administration's program.

There are adequate safeguards to ensure that the members of the Board of Directors act responsibly. Each director's appointment must be approved by the Senate, following a review of the prospective director's qualifications. No more than three directors may belong to the same political party. Other safeguards protect the Bank's decision-making process against political abuse. By law, the Bank may only approve transactions which offer reasonable assurance of repayment. Conversely, transactions may be denied for nonfinancial or noncommercial reasons only if the President determines that it is in the national interest and would advance U.S. policy to do so.

A third provision of the proposed bill would remove Eximbank from the Federal budget. We do not believe it is appropriate as a matter of sound fiscal policy for the Bank's receipts and disbursements to be removed from the Federal budget. Such an action would not significantly enhance the existing flexibility of the Bank. It would, however, loosen controls over the budget process as it relates to Eximbank and could result in Congress having an incomplete picture of the total amount of Federal credit assistance made available during any fiscal year. Excluding the Bank from the budget would understate the budget in terms of budget authority and outlays.

Removal of the Bank from the budget is not consistent with the overall Federal credit control system supported by the Administration and could be viewed as a precedent for other agencies. Regardless of whether our activities are formally included in the budget, we will continue to compete for real economic resources with all other government entities. Consequently, in setting appropriate program activity levels for the Bank, both the President and the Congress will still have to look at Eximbank within the context of Federal credit assistance in general.

Finally, the proposed bill would establish a fund to offset foreign export competition for manufactured and agricultural goods. As I mentioned earlier, as a result of our successful international negotiations, European and Japanese suppliers should not have any edge on financing over their counterparts in the United States. Therefore, the special fund is not required at this time, and we would come back to Congress if it is needed. I am confident that in the future we will continue to make progress in eliminating export subsidies altogether.

Mr. Chairman, that concludes my remarks. I am ready to answer any questions that you or the members of your Subcommittee may have. Thank you very much.

Senator HEINZ. Thank you, Mr. Draper.

First, in your testimony on the first few pages you state a number of figures, refer to various studies which I would like to have for the record of the subcommittee. Specifically, you indicate that almost 90 percent of requests for preliminary commitments considered by the Board are approved. Would you provide the list of all the requests received by the Bank and indicate which ones were considered by the Board and the nature of the transaction and the action taken by the Board?

Mr. DRAPER. We would be happy to do that, Senator.

Senator HEINZ. You refer to studies that showed that the Bank can remain competitive as to credit conditions so long as financing rates offered by the Bank are within 100 to 150 basis points of the competition. Would you furnish those studies for the subcommittee?

Mr. DRAPER. We'd be happy to do that as well.

Senator HEINZ. You also refer to extensive studies that show that the level of Eximbank credit needed to support nonaircraft and nonnuclear transactions next year will be below the 1982 level. The subcommittee would also be interested in looking at those studies.

Mr. DRAPER. Good. We will provide them (see page 165).

EXIMBANK SURPLUS AND LOSSES

Senator HEINZ. Now I remember in your nomination hearings that you predicted the Bank would suffer a loss in fiscal 1981 for the first time in history and you predicted a loss, a modest one, of \$10 million. So you raised the rates as you described and turned the deficit, I believe, into a modest gain for fiscal 1981. Is that not correct?

Mr. DRAPER. Fiscal year 1981 had a gain of about \$12 million.

Senator HEINZ. Now that surplus was added to the Bank's reserves as was the previous year's surplus of nearly \$110 million. As of the end of 1981, the Bank had a total reserve for contingencies and defaults of approximately \$2.2 billion, in addition to its capitalization of a billion.

So with all of those billions of dollars reserved for contingencies—Bank losses—which were increased by nearly \$125 billion in 1980 and 1981 alone, again—

Mr. DRAPER. \$125 billion?

Senator HEINZ. Yes. That's the \$110 billion from 1980 and the \$12 billion from 1981.

Mr. DRAPER. That's million, sir.

Senator HEINZ. Million. Did I say billion? Excuse me. We've been dealing with the budget process around here. We never worry about millions of dollars. I apologize. That's part of the problem that we never worry about millions of dollars.

Mr. DRAPER. I agree.

Senator HEINZ. The \$125 million in 1980 and 1981 alone, you raised your rates again in this current fiscal year reportedly to preserve the soundness of the Bank. Could you indicate to us what the expected loss for the Bank is to be this fiscal year?

Mr. DRAPER. We will lose about \$130 million. I think in that same hearing I think I predicted that we would probably lose \$120 million. It's a little worse than I had expected.

Senator HEINZ. So over the 3-year period the Bank has no loss at all, just about even. Certainly with a total reserve for contingencies of \$2.2 billion, this hardly presents a financial problem for the Bank; is that right?

Mr. DRAPER. Well, I think we certainly don't like the trend, but we would agree with you that we are about even on a straight dollars standpoint over the last 3 years.

Senator HEINZ. You and I are both aware of the numerous instances of lost sales and there have been plenty and we will prepare and put into the record a large number of examples. We'll share them with you. Indeed, I already have shared many of them with you, as you are well aware, over the last year or so.

BILLION DOLLARS IN UNUSED DIRECT CREDIT

I'm sure you're not any happier than we are about the lost business but, nonetheless, the Bank has ended up with \$1 billion in unused direct credit and we have lost billions of dollars more than that in sales because of the terms of the Bank offered not being competitive, and I would like to know how we justify ending up with a billion dollars in unused credits which could have supported a tremendous amount of employment, of sales, of moving the economy ahead in effect. How do we justify that?

Mr. DRAPER. I would like to give you some dates on the major case which affected the commitment of our credit authority. On September 29, 1981, Eximbank approved the issuance of a preliminary commitment for the Taiwan nuclear power project. Subsequently in the face of severe foreign competition it improved its offer four times as I pointed out in my testimony. We got it up to \$855 million—

Senator HEINZ. You're talking about the Taipower case?

Mr. DRAPER. Yes. On April 1, 1982, Taipower stated that the reactor bid would be awarded to one of the U.S. suppliers. I personally got a cable to that effect and that they would be using our money at the 10.75 rate which we had agreed to hold for them until that time. It wasn't until July 12, 1982, that Taipower announced the postponement for 2 years of this nuclear power project. So that's \$855 million, virtually the full billion dollars that we anticipate will not be used this year.

Now just to explain, it takes between 1 and 2 years very often between the time of conversion of a preliminary commitment into a direct credit. So it isn't as if in the last 2½ months we've been having a backlog that we could just turn on and accept some other offer in the place of Taipower. We reserved that money within our budget authority and we expected to come out right on the button and I think if you talk to Westinghouse in your State and other people that were involved in that order, you'll find that they were very delighted with the way in which we handled that transaction and netted it for the United States. I expect the United States will probably get the order in 2 years.

Senator HEINZ. Do you think we would have gotten the order in September of 1981 if we had made a competitive financing offer rather than a 42.5-percent financial guarantee.

Mr. DRAPER. No. I mean, we weren't holding up their schedule which I think is what you're suggesting.

Senator HEINZ. Well, let me ask you this then. Traditionally, the Eximbank has had much more demand than they can service. Now what's happened here is that, roughly 1 billion dollars, quite substantial, of preliminary commitment didn't pan out and there's nothing in the pipeline to take its place. In previous years there has always been plenty in the pipeline to take the place of deals. Indeed, there's been so much in the pipeline a lot of the elements couldn't get through the pipe.

Mr. DRAPER. Well, let me read you the percentages of the budget authority that the Eximbank has used against its annual limitations.

Going all the way back to 1968, we used 72 percent; 1969—these were expansive times for the Bank—46 percent of our capacity; 1970, we used 62 percent; 1971, 60 percent; 1972, 79 percent; 1973, 84 percent; 1974, 99 percent in which case we went right up to the top; 1975, 73 percent; 1976, 73 percent; and 1977, it's in two parts here, 64 percent; 1978, 79 percent and so on.

The most recent years, 1979-80, have been and one I participated in, 1981, we did use 100 percent of the capacity, it's true.

I think the explanation is a very easy if you understand that American business is cyclical and particularly in capital goods which we're so involved in, and we have found that the Bank has had cycles and they've gone up and down very much with the demand overseas and it doesn't just amount to American business but it's business that's overseas that we're so dependent on. So the Eximbank is there for orders that are there. But very often there are a lot of things other than just financing that makes for either the delay or the loss of an order—price, the mode of a customer, that is, the need of a customer for extra capital equipment and this is the reason in 1983 we don't predict any increase in our business. In fact, we expect a decrease in the basic business—that is a decrease in non-nuclear-non-aircraft and we don't expect much in nuclear at all for several years—this is the reason that it gets to be a confusing thing. I think some people think that if you just turn on the spigot you can get more orders, we can make more loans and so on, and sometimes it's just that American business is down.

I just returned from the Air Show. We're about to enter into new negotiations with Airbus countries—England, France and Germany—to try to extend and improve substantially the agreement that we have had in effect since last October. What is obvious at that Air Show is that people are scratching hard for orders but the customers are just putting the buy off for a lot of reasons that you're aware of.

Nuclear power is the same. We have also a commitment out—if you want to talk about the pipeline to Mexico on a nuclear power-plant and they postponed that and rightly so I think in view of their recent financial condition. I think we're a very cyclical part of a cyclical industry and we are the last to pick up and the first to shut off very often.

Anyway, the key point is that historically we're in the pattern if you take the full history of the Bank.

BANK'S TERMS UNCOMPETITIVE

Senator HEINZ. Well, let me take issue with that. I served on this Committee since 1976 and in 1976, 1977 and 1978, the years for which you read percentages, where the Bank did 73, 64 and 79 percent of its—used those percents of its capacity—there were no complaints coming to the Committee that the Bank's terms were uncompetitive. There were other factors involved. What's different today is that the Committee has been deluged over the last year—year and a half, as have you, as has the President, with complaints that we're losing business because our terms are admittedly much higher—400 points higher than the competition, and that we all know. So there is a difference.

Second, you, yourself, note that since 1978 and 1979 and 1980 and 1981 we've been at 100 percent of capacity, and here we're going to end up with all these examples that you and I are both aware of not using a billion dollars and we know, regardless of what the Bank did in 1976 or 1972 or how much Congress authorized back then or how low interest rates were or how much less of a factor world trade was in our thinking in those days and how much more domestically oriented everybody was—the fact is that those were very different times than today.

Mr. DRAPER. I agree with that.

Senator HEINZ. And I frankly am concerned that one of the reasons that you don't have things in the pipeline is that people have decided that the Eximbank isn't worth worrying about. I'll quote from another constituent corporation of mine in Pennsylvania. This is from Mr. Robert Dickey, chairman and chief executive officer, Dravo Corporation, dated September 16. He says in his third paragraph, "It is true that Dravo Corporation has been forced to decline certain proposal opportunities on international engineering construction jobs in the past years due to the probability that a U.S. based bid would not be competitive in the financial area. In other cases, we have directed business to foreign affiliates existing or to be formed rather than not participate."

That is not an unusual statement for American businesses to make. You, yourself, must be aware—even Ambassador Brock testified to the increasing and unwilling foreign sourcing by the U.S. based suppliers to service export markets. Surely that's not indicative of the fact that there's no demand for Eximbank support. Why isn't that indicative of indeed demand that the Exim is unwilling to service?

I'll give you one other quote that's relevant to something you mentioned. You mentioned the Air Show. We had the chief executive officer of Boeing before us earlier in the week, Mr. Stamper, and I quote his testimony: "In the Farnborough Air Show the word circulates among the others, well, the United States is interested in dismantling the Export-Import Bank and slowly putting it out of existence."

Well, whatever the facts may be, Mr. Draper, the appearance is, and the experience of businesses that want to do business overseas is, that the Bank isn't helping them; they're giving up on the Bank; and hence, the Bank is ending up with this billion dollars of

unused credit authority at a time that we very much need it used because unemployment has become so high.

Mr. DRAPER. Well, you mentioned quite a few points in your comments. I would say that item number one, a former vice president of Dravo sits on our Board as a commerce representative ex-officio, and he will I think attest to the fact that we have approved 90 percent—almost 90—88 percent I think it is of all the preliminary commitments that come forward. Now a preliminary commitment is like a banker's handshake. This is in 1982. That's item number one.

Item number two, I think Mr. Stamper and others who have made such a noise about the unavailability of funds and terms and so on may have turned some people away who might have come to us, but I think it's doing more harm than good for American industry to go around and say how difficult and uncompetitive we are. Now I am really surprised because, 1, Dravo or anyone else has been shy about coming in making a proposal as to whether we have enough funds or the right terms, and it's a little like the evasive—well, people are saying about you—it's a very hard thing to answer.

Senator HEINZ. We'll supply you—

Mr. DRAPER. I can tell you that we have very fine loan officers that are very eager. They're like salesmen out there trying to develop business on behalf of American industry, and I think it's very unfair to them not to give them credit for the kinds of attention they're paying to making people comfortable and easy in coming in. A phone call can practically make the application.

Senator HEINZ. Let me just interrupt to say—

Mr. DRAPER. We have been very easy to work with. We've been very eager to support business, and the numbers are proof that we and the Board are approving 88 percent of all of the preliminary commitments coming before us. The problem, Mr. Chairman, is we have been in a recession. I think we're coming out of it and we are the last part of that process in that capital goods around the world don't turn around until people are confident that they want to expand and I've been in a variety of countries and it's very obvious that this is not a recession that is based only in the United States. So our exports are suffering and I agree that the high value of the dollar has hurt them.

I agree that our terms have been a problem in the interim period while we were negotiating a new agreement and I'd like to hit that point as the No. 3 point, and that is that our negotiations we felt were the most important thing after I took over the Bank because we were losing money so drastically fast and every other country that was involved was doing the same thing and almost without knowing. For 5 years nobody had changed the interest rates in the arrangement and so I personally got directly involved in the negotiations. I think I'm the first chairman of the Eximbank to do so, as did Marc Leland from Treasury, and we found that we could talk to these people. But I was not about to show that I didn't believe in what I was preaching and I recommended to the Board and the Board accepted that interest rates be raised not only for the financial security of the Bank but also because I felt the psychology was important. Somebody had to make a move and a group of

three or four cement companies in a depression everybody points to the other guy and meanwhile they keep cutting their prices in order to get out of it and somebody has to start moving the other way.

Well, we made a move and 2 months later we got agreement from the Arrangement participants. We went up from 8.75 to 10.75. They went up from 7.75 to 10, 2 months later, and then we went to 12 and we've gotten into 11.3 minimum in the majority of the countries in which we're involved.

So, I would like to make it very clear that this has been an interim problem. I realize we've lost some orders, but we're looking to the future. We're not looking to the past. We are where we wanted to be. We got agreement. And from the President on down in this administration, nobody believes in subsidized financing. And that goes to the Ottawa discussions and the more recent ones in Europe of heads of state.

I think we've accomplished a great deal of getting the subsidy wrung out. You may not appreciate it, but I think the fact that the Bank has been able to reduce the subsidy by somewhere around two-thirds and continue to support American industry with the exception of that one situation this year resulting from the big power case which got held to the extent that you authorized us. In effect, we used up \$4 billion—we would have used up just about the full \$4.4 billion had it not been for that one hole in the sock. And I am apologetic about having misguessed that, but had I known that they were going to cancel, I might have not gone whole hog on Taiwan and would have spent more time on being a little more flexible, or we might have raised our proportion of coverage up from 65 percent to 85 percent as a matter of course. But we didn't do that, because we couldn't foresee what actually happened. So, that was a mistake. But let's look forward and work together.

Senator HEINZ. Let me interrupt at this point if I may, because I don't want to dwell at length on the fact that the Bank did not use up 25 percent of its entire ability to help exporting. That's a fact. You don't deny it. You know, whatever the reasons, the Bank did not use 25 percent of its wherewithall in the direct credit this past year.

Now, you said something, I think, that might be very significant. And I would like to dwell on that, because it's quite important.

As I hear you, what you're saying is that the Bank—the Bank would like to have it known that it is now going to be competitive. We have been through a difficult year. Some objectives involving negotiations were involved. There were some financial concerns that you had. Some mistakes were made. Some bad breaks took place, whatever. But the Bank now wants to announce, loud and clear, that it is now open for business, the window is up, we invite people in, and we are not going to let anybody engage in undercutting American business.

Can we say that today? Because if so, it would be the best piece of news that we could give.

Mr. DRAPER. Well, sure we can say that, and we've been saying that. We are very eager for business, we are looking for it, and we are competitive.

Senator HEINZ. And if you need to change your terms to be competitive, you will.

Mr. DRAPER. Yes; for poor countries we reduced our rate down to 11 percent in order to be within that 100-basis points when the new agreement was announced. We are down to 11 percent because they didn't move from 10 percent on that particular segment of countries. It turns out we used less than 2 percent of our resources last year for that group of countries.

Senator HEINZ. If you follow through on that, that is going to be the best news that we've heard from the Export-Import Bank in a long, long, long time. And if that really is the policy and is going to be the policy, Mr. Draper, I salute you. I am delighted. And I hope and pray that policies that you pursue from here on out are just as good as you say they're going to be.

And as I say, I am delighted with your statement. I think it is the most significant change in the policy of the Export-Import Bank that I've been involved with in this subcommittee, certainly since I've been chairing it, I might add, as well.

BUDGET AUTHORITY FOR FISCAL YEAR 1984

Let's talk about a couple of other subjects for the future: namely, the budget authority for the Bank for fiscal 1984.

The September 1982 edition of Dun's Business Review quotes you as predicting "there's going to be a very big demand for Eximbank loans in 1984," and, "that it will be a very big year."

The article goes on to report that—

Mr. DRAPER. I'm hoping.

Senator HEINZ. You just said you predicted—that's what the article said.

The article goes on to report that, with the current budget request for 1984, you believe the Bank will have quite a difficult time satisfying demand.

What do you believe would be an appropriate level of direct loan authority for 1984 fiscal year?

Mr. DRAPER. If you don't mind, I'd rather not disclose that at this time, because I'm right in the middle of some discussions on that. We've made proposals to the OMB, and I don't want to disclose that information at this time.

But I would say that I anticipate that we will have some nuclear business and some pent-up demand for aircraft that hasn't happened this year and won't happen probably next year. And so, I do believe that 1984 will be a demand year on the bank, yes, even higher than the 1983 level, probably higher than 1982.

Senator HEINZ. Higher than 1982.

Mr. DRAPER. Higher than 1982 and higher than 1983.

Senator HEINZ. Let me ask you this about 1982. Have you suggested to anyone, legislative or anyone else, either publicly or privately, that the level of loan utilization, the roughly \$3 billion of commitments in 1982, which results from the failure to use nearly \$1 billion of authority, justifies operating off of that unrealistically low base? Have you suggested that there's something realistic about the actual experience of 1982 off of which budget decisions should be made in future years?

THREE CATEGORIES OF BUSINESSES

Mr. DRAPER. No. Our business is in three categories: Nonnuclear, nonaircraft kinds of products, such as turbine generators, locomotives, this kind of thing; and then there's nuclear business; and then there's aircraft business; it varies among those three segments, but the nonnuclear, nonaircraft is fairly steady business, and, in fact, we have approved more in that category in 1981, 1982, since I've been there, than we ever have before. I mean, it would surprise you, the numbers, and we would be happy to supply those to you, too. But on a monthly basis, we do somewhere I think in the neighborhood of \$150 million per month of that kind of business.

And the thing that's disappeared this year is nuclear completely, and last year—this is 1980, 1981, 1982—it's all void of nuclear; and 1983 will be, and I hope in 1984 we'll be in there.

So, I would say that the aircraft is the other element that that has used a disproportionately high amount of our funds in 1981. While I was still there, they got almost 50 percent of our total budget, and the highest in their history—something like \$2.8 billion.

Well, here are the exact numbers. There's a follow-on in nuclear power of \$120 million in 1981; in jet aircraft, \$2.5 billion, all others, \$2.4 billion. A total of \$5.1 billion of regular loans.

So, I think, in answer to your question, that all we can do is talk about what we expect to happen in relation to what has happened in the past with a pickup in business, which I would expect 1984 to be.

Senator HEINZ. So, with respect to direct credits, I think, for the fiscal year we have been talking about, fiscal 1982, you are saying to the committee that, No. 1, you recognize there really could have been \$4 billion or more—or more—of direct credit authority intelligently utilized?

Mr. DRAPER. I don't understand your question. I don't agree with that, I don't believe.

Senator HEINZ. You don't.

Mr. DRAPER. I don't think so. I think we intelligently used the funds we had.

Senator HEINZ. Let's isolate these differences.

Mr. DRAPER. And we aimed for what you had authorized, and you authorized \$4.4 billion. We used up virtually all the discount loan program—within \$50 million maybe. But that was the \$400 million. The \$4 billion was—as I pointed out, would have been almost fully utilized had it not been for our friends in Taiwan. We wanted to reserve that money for Taiwan; we didn't want to give it to anyone else, because we had it allocated.

Now, you're saying, well, maybe we could have gotten something else—and I agree, that had we increased from 65 percent to 85 percent our coverage, we certainly would have allocated that much more money, because—

Senator HEINZ. That's on the preliminary commitments that you actually converted into credits.

Mr. DRAPER. That were actually converted, yes.

Senator HEINZ. Look, Mr. Draper, Ambassador Brock was sitting where you were just a few minutes ago. He said, our U.S. Special Trade Representative said, that there have been lost sales due to the Bank's policies. He said that there has been foreign sourcing due to the Bank's policies.

Mr. DRAPER. Yes.

Senator HEINZ. You appear to be saying, "Oh, well, we couldn't possibly have used any more money. The only thing that could have used more money is if Taipower had matured. The only other way we could have used the money is, on the deals we made, just raise the coverage."

Now, he is saying something very different than you are.

Mr. DRAPER. I don't think so.

Senator HEINZ. Now, you either recognize the loss of business or you don't.

Mr. DRAPER. No, I don't think he's saying anything different. I think what he's saying is——

Senator HEINZ. Well, it's not him I'm worrying about, it's you.

Mr. DRAPER. We had rates that were stepped up unilaterally. We did lose some business. I'm the first to admit that.

Senator HEINZ. How much do you think we lost?

Mr. DRAPER. I cannot say. We lost one—well, let's see, we didn't lose any aircraft business because of our financing over the last—1981, 1982. And as far as we have been able to determine our studies show that 9 out of 10 aircraft orders that were let went to Boeing.

Now, one of them was lost, but that wasn't due to financing. We have a great disagreement with Boeing, and Boeing will show great numbers of lost cases. But I think you will find most of them have been postponed cases which haven't been lost yet.

There is one order that we went for, in Brazil, to VASP. I went down to Brazil myself to do something about that, and we gave them our very, very best offer. And it was exactly the same as the offer that was made by the Europeans for Airbus.

So, the agreement that we negotiated back a year ago, in October, I think we really can be proud of it, because it evens off the financing. They charge 12 percent; we charge 12 percent. They go out 10 years; we go out 10 years. They have 42.5 percent coverage if they put the repayments at the last 5 years of the 10-year agreement; and we have 42.5 percent coverage—or we both have 62 percent if we do it *pari passu*.

But the point is we are even on with them. So, with regard to the other——

Senator HEINZ. Let's talk about nonaircraft——

LOSSES DUE TO NONCOMPETITIVE FINANCING

Mr. DRAPER. Yes, let's talk about nonaircraft, because there is a legitimate case that we made some arbitrary moves prior to OECD agreement. And in those cases we made a decision that we would move the interest rate up to try to get it somewhat closer to our marginal cost of money and our average cost of money. And we did that unilaterally, and I'm sure we did lose some business. I feel as

bad about that and undoubtedly I'm getting more heat about that than you are.

Senator HEINZ. Let me remind you the question is not whether you feel good or bad. But the question is, How much business did we lose in 1982?

Mr. DRAPER. Well, I can't tell you that.

Senator HEINZ. All right. Let me give you three examples. You do admit we did lose business in 1982, but you don't know how much?

Mr. DRAPER. Yes; that's right.

Senator HEINZ. Now, on Tuesday, we had testimony from three individuals only representing three of the Eximbank's many clients, nonaircraft, nonnuclear.

One was Mr. William J. Durka of General Electric, who testified that G.E. had lost \$250 million of sales clearly due to noncompetitive financing.

No. 2, Mr. James Lovett of Westinghouse reported almost \$200 million of lost sales and indicated that he could provide additional examples over and above the \$200 million for the record.

Later today, we are going to hear from Mr. William Trammel of Fluor Corp. who will testify to a loss of \$500 million in a construction project in Trinidad, won ultimately by American companies, but subcontracted out of their foreign offices because they concluded Eximbanks financing would not have been competitive.

Now, that seems to me to be just the tip of the iceberg. We're only talking about three companies. We're not talking about all their losses, and yet we're talking about \$950 million in lost sales just in those examples.

Now, it strikes me that we must have lost a good deal more than that \$950—nearly \$1 billion of business.

Do you think we lost more than \$1 billion in business?

Mr. DRAPER. For financing reasons?

Senator HEINZ. Yes.

Mr. DRAPER. No; I don't.

Senator HEINZ. Well—

Mr. DRAPER. In one case, for example that I have heard you quoted on many times, saying that we lost the Korean subway case for Budd. And I disagree with that analysis 100 percent. And the reason is Budd came in \$50 million high in their price; Budd did not agree to allow 70 percent of the product to be made in Korea, which the British agreed to do. And the same interest rate, the same terms, and so on were offered to two other parts of that, one at least was in your State, Westinghouse and ROBCO. And they both got that order. I was surprised to be criticized for the Bank's policy on that particular sale.

We get blamed, you know, by every marketing department in the country, I know because I used to be a marketing man with a steel company, and I must say that, you know, you look for lots of reasons why you lost the order other than your personality and your price, unless some other guy set the price.

And I say that there are a lot of other reasons that sales can be lost other than financing. The Eximbank is a Government agency, and it makes a good lightening rod for a lot of marketing requirements. And I'm here to tell you that they have been heard.

Senator HEINZ. All right. Mr. Draper, what I would appreciate your doing in this instance is—we'll give you the information on just these few instances that I mentioned, and the committee would appreciate it if you would get back to us with your analysis of whether the financial terms offered by the Eximbank, in fact, in your judgment, as a marketing man, that these, in fact, were considerations, the perhaps determining consideration in the loss of the business.

There are, I'm sure, numerous other things we can talk about. We have noted your view on S. 2600.

Do you favor, other than a 5-year extension, any changes in the charter of the Eximbank?

Mr. DRAPER. I don't at this time. I must say I've been considering some other possibilities to make the Bank more effective. And if they seem to be practical after a deeper analysis, I'd be happy to get back to you. But as of this time, I really don't.

Senator HEINZ. Let me bounce one idea off you. It was suggested to us on Tuesday by Mr. Larry Fox, who was at the Bureau of the Budget in 1945 working on the Eximbank budget when it was first created, that what we should do, from the standpoint of accounting with the Office of Management and Budget on the Bank, is get away from the fallacy that the direct credit authorization of the Bank; for example, the \$4 billion we've been talking about in 1982, that that should register as the cost of the Bank when, indeed, there are all kinds of loan and interest repayments that frankly out of—since 1945, the loan interest repayments offset those, so that apparent budget cost of the Bank—that for purposes of our bookkeeping at the Office of Management and Budget, we should simply tell them, statutorily, to register the net outlays of the Bank as the number that they ought to be looking at.

How would you feel about that?

It would have to make negotiations—I mean, discussions with people downtown on the 1984 budget—easier.

Mr. DRAPER. My associate says that they do currently look at the net outlay and take disbursements and cashflow into consideration.

I think that basically it's a pretty good thing to come to your attention. I think it's bad to take some of the attention away from Congress, because I think there are ambiguities—

Senator HEINZ. I'm sorry. I didn't make myself clear. Congress, in the Appropriations Committee, will always deal with setting the authorization limits for credit authority. This is the accounting and control aspects down at OMB, rather than—we must, each year, at the appropriation level, authorize a specific amount of authority, whether it's \$4 billion, or whatever that number is. But I didn't mean to suggest that we would not continue to do that.

Mr. DRAPER. Right.

Senator HEINZ. But in terms of the way we would have OMB account—you know, for example, Commodity Credit Corporation is accounted for on that basis is my understanding.

Mr. DRAPER. Well, I don't know all the ins and outs of the way OMB keeps score, but I am told by my treasurer that they do take that into account.

Senator HEINZ. Well, that's right—unfortunately, not the only thing they take into account.

AMENDMENTS TO EXIMBANK CHARTER CONSIDERED

Well, we will be having, I am sure, some additional hearings next year. At those hearings, there will be under consideration, I am sure, a variety of amendments to the Eximbank charter. We will be looking forward to any ideas you have on that in the meantime, and we will be looking forward also, in the meantime, to getting a very clear picture of what kind of authorization you think the Bank is going to need in future years, and particularly that fiscal year 1984 number that you are working on, or that is being worked on right now.

Mr. Draper, thank you very much.

Mr. DRAPER. Thank you very much, Mr. Chairman. I enjoyed it. [Additional material received for the record follows:]

Request:

"You indicate that almost 90 percent of the requests for preliminary commitments considered by the Board are approved. Would you provide the list of all the requests received by the Bank and indicate which ones were considered by the Board and the nature of the transaction and the action taken by the Board?"

Response:

The attached table summarizes the basic data on the volume and value of all applications in FY 1982, as well as their disposition up to now. This table is the basis for the 90 percent figure referenced in the testimony. Accumulation of detail on all of the cases does not presently exist, but is obtainable.

FY 1982 - Status of PC's and Credits-Without-PC's Applications Received
(excluding duplicates) As of October 18, 1982

	<u>Number</u>	<u>Export Value</u> <u>(millions \$)</u>
I. <u>Total Applications Received</u>	<u>294</u>	<u>18,670</u> ^{1/}
II. <u>Applications Acted Upon by Board</u>	<u>182</u>	<u>12,875</u>
A. Approved by Board	170	11,770
B. Denied by Board	12	1,105
III. <u>Applications Unacted Upon by Board</u>	<u>112</u>	<u>5,795</u>
A. Pending	55	3,445
B. Withdrawn	57	2,350
IV. <u>Win/Loss Disposition</u>	<u>76</u>	<u>3,271</u>
A. Approved Cases	56	2,815
1. Won	35	1,527
2. Lost	21	1,288
(financing)	(4)	(113)
B. Withdrawn Cases ^{2/}	20	456
1. Won	5	88
2. Lost	15	368
(financing)	(6)	(138)

V. <u>Ratios (%)</u>		
A. Cases approved by Board to all cases acted on by Board	93.4	91.4
B. Wins to all wins and losses	52.6	49.3
1. Approved cases	62.5	54.2
2. Withdrawn cases	25.0	19.3
C. Financing losses to all losses	27.7	15.1
1. Approved cases	19.0	8.8
2. Withdrawn cases	40.0	37.5

¹Total adjusted to exclude cases that represented mistaken applications (e.g., the equipment was already covered under another PC or the exporter never intended to bid on the transaction). Also, excludes the Egyptian nuclear transaction which has an export value of \$1.9 billion.

²These figures do not include any wins or losses which may have occurred on cases withdrawn at Eximbank instigation (e.g., for lack of sufficient information). These cases, like denials, are not covered by the follow-up procedures.

Request:

"You also refer to extensive studies that show that the level of Eximbank credit needed to support non-aircraft and non-nuclear transactions next year will be below the 1982 level. The Subcommittee would also be interested in looking at those studies."

Response:

The attached analysis synthesizes the results of many studies done by Eximbank and was included in Eximbank's budget submission to OMB. Included in the attachment are studies footnoted in the analysis.

July 1982

POTENTIAL FUNDING REQUIREMENTS FOR NON-NUCLEAR/NON-AIRCRAFT
IN FY 1983/84

Background: Despite the United States' success in negotiating a substantial increase in the Arrangement minimum interest rates over the past year, the increase does not imply that the demand on Eximbank resources will decline. Rather, this negotiating success means that Eximbank is able to remain competitive at a higher interest rate. That is, while Eximbank can achieve its competitiveness objective at, say, 12 percent today as opposed to 8.75 percent 18 months ago, the same relative volume of transactions continues to seek this competitive support. While Eximbank's foreign competitors have raised their interest rates, their willingness officially to support export credit transactions with whatever amount of subsidy is permitted has not diminished.

Therefore, assuming the continued existence of a competitive international export finance environment, the future demand for Eximbank resources will generally be a function of a) the interest rate environment in the United States and the extent to which Eximbank's rate is below U.S. dollar market interest rates and b) the level of U.S. capital goods exports, particularly to less-developed countries. The outlook for long-term rates and capital goods exports, as well as the expected demand for Eximbank direct loans based on specific projects, is discussed below.

Interest Rate Environment and Effect on Demand: Previous experience and Eximbank studies have shown that, "as long as Eximbank's interest rate is below the market rate, the demand for Eximbank's financing is strong. But as soon as Eximbank's rate moves above market rates, it has a negative effect on Eximbank's loan activity."¹ Thus, unless Eximbank's direct loan rate is expected to be above equivalent market rates, one would not expect loan demand to be dampened due to the prevailing interest rate environment.

The general consensus of economic forecasters is that five- to ten-year government rates will not long exist below 10 or 11 percent during 1983/84. The minimum Arrangement rates of 10 to 11.35 percent (for "poor" and "intermediate" countries, which are expected to make up almost all of Eximbank's business) would, therefore, be roughly

¹"Factors Contributing to the Demand for Eximbank Loan Authorizations," Policy Analysis Staff Paper, January 1980 and November 1981.

equal to the best (government) long-term rate available in the United States and from 50 to 150 basis points less than the rate which a typical foreign borrower seeking fixed-rate financing could expect.² Further, because the forecasts show a generally level yield curve, even borrowers willing to consider floating-rate financing would be unlikely to find it more attractive than an Eximbank credit.³

Thus, it would appear that, while Eximbank's lending rate will be closer to "market" rates than it was in 1980, for example, it will not be sufficiently high to dampen demand to a noticeable extent.

Demand Based on Trends in Capital Goods Exports: Table 1 illustrates the level of "core" exports (essentially capital goods exports excluding aircraft, automobiles, developed country and Communist country sales) and the percentage of such exports supported by Eximbank over the past five years. These "core" exports have grown from 25 percent of total capital goods exports in 1978 to 29 percent in 1981. Over the past three years, which generally have been characterized by a greater degree of budget constraint and more targeted lending than was the case in the early 1970's, Eximbank direct lending has supported an average of 11 percent of these core exports. Thus, one means of forecasting demand for Eximbank's direct loan resources would be to estimate the level of core exports and assume that Eximbank would continue to be called on to support roughly 11 percent of those exports.

Two forecasting services which are available to Eximbank provide data on capital goods exports (Wharton and DRI). Both expect such exports to increase by an average of 15 percent over the next two years, as shown in Table 2. (This rate of increase is consistent with an average increase of 17 percent from 1978 to 1981.) Assuming "core" exports account for roughly 30 percent of all capital goods exports in 1984 and 1985⁴ and that Eximbank supports 11 percent of those exports with an average of 65 percent loan cover, the non-aircraft/non-nuclear direct loan demand would be roughly \$2.5 billion in FY 1983 and \$3.0 billion in FY 1984.

²The AAA-corporate-bond rate is typically 103 percent of Treasury issue of similar maturity, while the BAA-corporate-bond rate averages 110 to 115 percent of the Treasury rate. No lower than the BAA rating is the rating more frequently assigned by the market to a typical foreign borrower seeking Eximbank support.

³Over the past two years, Eurodollar rates have averaged 120 to 125 percent of Treasury rates for similar maturities.

⁴These two years are used because of the "lagged" impact of Eximbank support.

Demand Based on Specific Projects: Table 3 reflects demand for direct credit resources based on specific business in-house or identified as likely to come into the Bank over the next two fiscal years. The basic economic assumption in this estimate is that the FY 1983-84 period will encompass the "trough" in the demand cycle--that is, the bottoming out of the current cycle and the beginning of the upswing in the next cycle. Hence, demand for Eximbank non-air/nuclear credit will be basically flat at about \$2.4 billion per year over the FY 1983-84 period. Although there are few specific cases presently in-house, a multitude of projects are anticipated as possible authorizations in the 1983-84 period. Appendices A, B, and C categorize and identify many of these potential projects. It appears that the bulk of future activity would be in the Latin American/Asian markets, dominated by projects for the development of hydrocarbons or basic (e.g., steel, cement) industrialization resources. An emerging sector may be mass transit components.

A numerically modest, but substantively important, aspect of the FY 1984 direct credit budget submission is the introduction of the "Medium-Term Credit Facility." After several years of research, analysis, and discussions with exporters, the Bank is now confident that the absence of a competitive financing facility for medium-term exports has an economically adverse and inequitable impact on that size and nature of exporter. Starting October 1, 1982 (FY 1983), Eximbank is committed to making competitive direct credit financing available where it is most needed, irrespective of transaction size, product nature, or term length (over one year). Discussions with exporters indicate that a carefully targeted program might utilize \$300 million of credit resources in FY 1983 and \$400 million in FY 1984.

TABLE 1

"Core" Exports Supported by Eximbank Direct Loans
(all figures in billions of dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81
A. Non-air/non-nuclear export value supported by Eximbank	1,166	1,710	2,233	2,881	3,684
B. Total "core" ¹ exports	CY 78 14,990	CY 79 18,238	CY 80 23,728	CY 81 27,682	CY 82 (est.) 30,000
C. Percent of eligible exports supported by Eximbank ²	7.8%	9.4%	9.4%	10.4%	12.3%

¹U.S. capital goods exports, excluding aircraft, automobiles, and sales to developed countries, communist countries, and rich OPEC countries; presented on a calendar-year basis.

²Eximbank authorizations in year one are assumed to support core exports in year two; for example, FY 77 Eximbank authorizations are compared to CY 78 core exports.

TABLE 2

Capital Goods Exports Forecasts

(all figures in billions of \$)

	1982	1983	1984	1985
Wharton (annual increase)	94.4 (12%)	106.1 (19%)	126.3 (12%)	141.5
DRI (annual increase)	97.9 (14%)	111.7 (16%)	129.3 (15%)	149.4
Average of Wharton and DRI (annual increase)	96.2 (13%)	108.9 (17%)	127.8 (14%)	145.5

TABLE 3

Demand Based Upon Specific Projects

(credit value in millions of \$)

	FY 83	FY 84	Total
<u>Non-Air/Non-Nuclear</u>	<u>2,575</u>	<u>2,400</u>	<u>4,975</u>
A. In-house ¹	900	--	900
1) 100% A-ranked	350	--	350
2) 25% B-ranked	550	--	550
B. Anticipated ²	675	550	1,225
1) 100% A-ranked	175	430	605
2) 25% B-ranked	500	120	620
C. Potential ³	425	1,075	1,500
(10% all cases, 1/4 1983, 3/4 1984)			
D. Under \$50 million (25% of B and C)	275	400	675
E. Medium-term credit facility	300	375	675

¹Using values from Appendix A.²Using cases listed in Appendix B.³Using cases listed in Appendix C.

APPENDIX A--In-House FY 1983 PC's Ranked A and B

	Export Value (mil. \$)	Credit Value (mil. \$)
A-Ranked Outstanding PC's	311.5	211.1
A-Ranked Pending PC's	197.9	<u>142.0</u>
TOTAL A's		353.1
B-Ranked Outstanding PC's	2,322.1	1,715.4
B-Ranked Pending PC's	767.4	<u>492.9</u>
TOTAL B's		2,208.3

APPENDIX B--Potential Business As Identified by Eximbank Loan Officers*

Country	Project	Export Value (mil. \$)	Credit Value (mil. \$)
<u>FY 1983</u>			
<u>A-Ranked</u>			
Korea	Telecommunications	215	90
All other (under \$100 million export value)		120	80
TOTAL		335	170

<u>B-Ranked</u>			
Philippines	Air traffic control	100	65
China	Hydroelectric project	300	195
Cameroon	Hospital	100	65
Ivory Coast	Ammonia plant	400	260
Nigeria	Petrochemical	400	260
Nigeria	Steel mill	200	130
Nigeria	Coal project	100	65
Chile	Steel mill	100	65
Chile	Deheuche or Termica hydro	150	100
Mexico	NAFINSA railroad equipment	100	40
Venezuela	Coal mining and railroad	100	65
Argentina	Ayee combined cycle plant	130	85
Brazil	Air traffic control	100	65
All other (under \$100 million export value)		925	545
TOTAL		3,205	2,005
<u>FY 1984</u>			
<u>A-Ranked</u>			
Taiwan	Nuclear power plant	1,500	1,000
Taiwan	Thermal power	500	325
All other (under \$100 million export value)		170	110
TOTAL		2,170	1,435
(Excluding nuclear)		(670)	(435)

<u>B-Ranked</u>			
Korea	Nuclear units #11 and #12	1,500	975
Singapore	Subway	100	65
Singapore	Hydrocracker	200	130
Yugoslavia	Nuclear power plant	800	520
Mexico	NAFINSA railroad	100	40
Mexico	Nuclear power plant	1,500	1,000
Spain	Nuclear power plant	320	210
All other (under \$100 million export value)		465	240
TOTAL		4,985	3,180
(Excluding nuclear)		(865)	(475)

*Cases listed include only those with export values of \$100 million or greater.

APPENDIX C--Commerce Department Major Projects by Sector*

Sector	Country	Project	Export Value (mil. \$)
<u>Power:</u>	Argentina	Corpus dam	500
	Argentina	Parana hydro	1,000
	Australia	Diesel power	500
<u>Oil/Gas Development:</u>			
	Argentina	LNG	700
	Chile	Straits of Magellan	500
	Venezuela	LNG	500
	Australia	Offshore development	200
	Australia	LNG expansion	100
	China	Offshore development	1,800
<u>Petrochemicals:</u>			
	Ecuador	Atahualpa refinery	300
	Australia	Exxon olefins	600
	Thailand	Soda ash	400
	Malaysia	Fertilizers	380
<u>Steel:</u>	Argentina	Sidinsa	200
	Ecuador	Ecuasider	300
	Mexico	Siderurgica del Galfo	800
	Venezuela	Siderzilia	1,000
	Korea	Rohang	2,000
<u>Transit:</u>	Colombia	Medillin metro	200
	Colombia	Bogota metro	500
	Ecuador	Quito subway	500
	Nigeria	Lagos	100
<u>Telecommunications:</u>			
	Mexico	Telephone switching	400
	China	Satellite system	150
<u>Construction Materials:</u>			
	Trinidad	Aluminum smelter	400
	Philippines	Cement plant	500
TOTAL			14,530

*Cases listed include only those with export values of \$100 million or greater.

Request:

"You refer to studies that showed that the Bank can remain competitive as to credit conditions so long as financing rates offered by the Bank are within 100 to 150 basis points of the competition. Would you furnish those studies for the Subcommittee?"

Response:

The attached material provides:—

- Numerical data showing that the Eximbank direct credit package provided to U.S. exporters as of January 1, 1983, is within the 100 to 150 basis point margin and will be more competitive vis-a-vis the major foreign systems than the Eximbank package in effect when the present Administration took office.
- Explanation of, and presentation of the latest results on, follow-up studies on all preliminary commitments offered by Eximbank since October 1978; these results are the basis for the conclusion that the 100 to 150 basis point spread on base rates is still competitive.

COMPARISON OF ANNUAL INTEREST RATES OF EXIMBANK (U.S.) OFFERS
AND TYPICAL FOREIGN OFFERS
 (%)

As of:		7/1/80	1/1/83
I. Base Rates¹			
A. Developed			
1. U.S.		8.75	12.40
2. F/I/UK ²		8.75	12.40
B. Intermediate			
1. U.S.		8.75	12.00
2. F/I/UK		8.50	11.35
C. Poor			
1. U.S.		8.75	11.00
2. F/I/UK		7.75	10.00
II. Effective³			
A. Developed			
1. U.S.		9.40	13.00
2. F/I/UK		9.60	13.60
B. Intermediate			
1. U.S.		9.40	12.65
2. F/I/UK		9.35	12.55
C. Poor			
1. U.S.		9.40	11.75
2. F/I/UK		8.60	11.20
III. Spreads⁴			
A. Developed			
1. Base		0	0
2. Effective		(0.20)	(0.60)
B. Intermediate			
1. Base		0.25	0.65
2. Effective		0.05	0.10
C. Poor			
1. Base		1.00	1.00
2. Effective		0.80	0.55

¹Rate charged by the official export credit agency on over 5-year transactions.

²The average rates of France, Italy, and the United Kingdom are used because these countries almost always lend at Arrangement minimums.

³The effective rate includes:

- For the United States, the base rate on 65% blended with 20% private at 15%. For 1981, 50 basis points were added for the front-end fee; from 7/82, only 35 basis points were added.
- For foreign, the base rate plus the average insurance premium of the three countries.

⁴The United States minus foreign; () means the United States is below foreign.

BACKGROUND ON THE PC FOLLOW-UP FORMATGeneral Focus

In an attempt to determine the impact of Bank policy changes on PC dispositions, the PC follow-up report format focuses on the period in which PC's are authorized. The study now includes three policy periods, which are characterized below. As and when major policy changes occur in the future, additional policy periods will be added. This format will eventually provide a profile of wins and losses under various lending policies, indicating how successful the policies were and what types of business were won or lost.

The three policy periods covered in this study are as follows:

(1) October 1978 (when the PC-follow-up effort was begun) through March 1980: This 18-month period was one in which the Bank employed a scale of interest rates ranging from 7.75% to 8.75%, depending on repayment term, with up to 85% direct loan support available, depending on the competitive situation. During this time, aircraft PC's carried an average interest rate of 8.6% and direct loan cover of 72%; the interest rate on non-aircraft PC authorizations averaged 8.1%, with average direct loan cover of 80%. This resulted in a blended Eximbank rate which was roughly 70 basis points above the rate typically offered by foreign competitors. Almost 300 cases with an export value of slightly over \$20 billion were authorized.

(2) April 1980 through June 1981: This 15-month period reflected a time in which budget constraints prompted the Bank to reduce its direct loan cover to 65% (75% if the exporter agreed to participate at Exim's rate) and raise its interest rates to 8.75% for non-aircraft cases and 9.25% for aircraft. The average direct loan cover for aircraft cases was 70%, with non-aircraft transactions receiving an average of slightly more than 65%. Thus, the blended rate on a typical Exim package was approximately 150 basis points above the best rate available from its major competitors. Approximately 300 cases with an export value of \$20 billion were authorized.

(3) July 1981 through Present: This policy period began with a 10.75% rate for non-aircraft cases, increasing to 12% by November; a 12% rate for aircraft; and a 2% credit application fee. Exim's direct loan cover has remained at 65%, with the additional 10% option available on a selective basis. The average direct loan support for aircraft transactions has been 42.5%, with non-aircraft cases averaging slightly more than 65% cover. Thus, the typical Exim blended rate has been roughly 250 basis points above the competition. As of March 31, 1982, 130 PC's with an export value of slightly over \$13 billion had been authorized.

The follow-up tables present information on three broad industry categories -- aircraft, power, and other (non-air/non-power) transactions -- as opposed to focusing on overall totals. Due to the unique nature of the aircraft and power sectors in terms of competitive and volume characteristics, a win/loss analysis which combines these two categories with other cases could mask important trends within a particular sector. Thus, a more meaningful analysis can be

made by looking at each of the three sectors individually, as each illustrates a different aspect of the financing issue. The power sector probably best measures the degree of absolute Exim competitiveness, as this sector appears to be the most consistently competitive and generally receives the most favorable Exim support. The "other" sector provides the best gauge of Exim's general success in its case-by-case effort to meet the perceived competitive aspects of each transaction. Finally, the aircraft sector tracks the feasibility of the unique support structure set up for it.

Change in Format

At the suggestion of the Direct Loan Division, the reason-for-loss categories which can be used for PC's is to be expanded; this change will begin with all PC's cancelled on or after June 1, 1982. With the addition of two new categories (as noted below), Loan Officers will have the following choices when categorizing lost PC's:

1. Non-Financing Reason Clearly Dominant
 - a. Price
 - b. Quality/technology
 - c. Other (such as political pressure)
2. Financing Reason Clearly Dominant
 - a. Arrangement-rate export credit
 - b. Aid or mixed credit
3. No Clearly Dominant Reason, but Financing Played a Role
 - (new) a. Financing a major factor
 - (new) b. Financing a supportive factor

EXPORT-IMPORT BANK OF THE UNITED STATES

POLICY ANALYSIS STAFF

REPORT

June 4, 1982

SEMIANNUAL PC FOLLOW-UPHighlights

o Impact of Interest Rates: It appears that an Exim "best-available" interest rate roughly 100 basis points above that of the typical foreign competitor may have an adverse impact on a limited number of highly competitive cases, while an Exim rate of 200-300 basis points above the competition may have a more extensive adverse impact on a wider range of cases. These implications are qualified for the following reasons, however:

(a) Although the incidence of non-air/non-power cases lost due to normal export credit financing increased from 1 of 45 cases in policy period 1 to 4 of 19 cases in policy period 2, each one of the four cases had significantly unusual aspects. (Two cases were lost to non-subsidized competition, one was a higher rate/longer term experiment, and one received minimum Exim support.)

(b) While only 2 of 13 lost cases in all sectors so far in policy period 3 were clearly due to financing, financing was allegedly a significant adverse factor in two other large cases lost to foreign competition (Mexican power plant and Korean subway system transactions.)

o Sector Trends: The basic trends and influences within the aircraft and power sectors remained unchanged during the first two policy periods, and thus far, resolutions in the third period give little indication that these trends or influences are changing. That is:

(a) the U.S. typically wins most (roughly 9 out of 10) aircraft cases, with aircraft losses primarily due to political factors; and

(b) the U.S. wins about 1 out of every 2 power equipment cases, with losses occurring most frequently to Germany and Japan on the basis of price.

o Targeting Consequences: The main implication emerging from the increase in financing losses in the non-air/non-power sector and the high ratio of financing losses in non-air guarantee-only cases is that a policy of testing the competitive needs of individual transactions with less than "best rate" offers -- a policy basically necessitated by budgetary constraints -- does have a cost in terms of lost exports.

CommentsTable 1: Aircraft

With all but three of the 71 PC's authorized in policy periods 1 and 2 now resolved, a clear winning trend is evident. The win ratios for both periods --

- 2 -

averaging about 9 wins out of every 10 cases resolved -- far exceed those of the non-aircraft sectors, and virtually all losses that did occur were due to political or technical factors rather than financing.

Policy period 3 has seen only eight aircraft authorizations, with one resolution thus far -- an apparent¹ loss of 767's in Nigeria, again due to political factors. The previous extremely favorable win/loss situation in the aircraft sector could change in this policy period, as all aircraft authorizations in the third policy period support the more competitive new-generation aircraft while only 30% of the authorizations in previous policy periods related to such aircraft.

Table 2: Power

All PC's authorized in policy periods 1 and 2 have now been resolved, and the resulting win/loss picture is not nearly as encouraging for the U.S. as in the aircraft or non-air/non-power sectors. Although the win ratios improved somewhat in the second period, the U.S. can generally be said to be losing as many cases as it wins in the power sector. In both periods, Germany and Japan were the most frequent winners, typically on the basis of price.

With 30% of the 32 power cases authorized in policy period 3 having been resolved, the U.S. continues to have a problem in this sector. The win ratios of less than 1-1 again reflect the high frequency of losses to Germany and Japan due to price and technical reasons, as well as the loss of a major portion of the Korean nuclear project to France for financing reasons.

Table 3: Non-Aircraft/Non-Power

All but two PC's authorized in policy periods 1 and 2 have been resolved, and the U.S. appears to be in a healthy position in these sectors, winning 65-75% of all cases which go forward. However, a significant shift in the reasons for loss has occurred. While non-price/non-financing factors clearly dominated losses in policy period 1, cost factors (price and financing) accounted for three-fourths of the losses in policy period 2. In fact, 20% of the second period's losses were due to normal export credit financing, with another 10% due to concessional financing offers. (During the first period, losses due to both normal and concessional financing accounted for only 10% of all losses.)

The shift to cost factors appears to largely be a function of a shift in sectoral emphasis: manufacturing and mining/refining cases (which accounted for half of all price and financing losses in policy period 2) increased, while communications projects (which comprised one-third of all non-price, non-financing losses in policy period 1) declined. As for the increase in losses due to financing, the rather eclectic pattern established by the four lost cases -- two to market-rated German and Japanese offers, one involving minimum U.S. support, and one in which the Bank experimented with the higher-

¹While Boeing continues to claim this sale has been lost to Airbus, confirmation has not been received from the U.S. Embassy; at one time, the Embassy indicated that the purchase was simply postponed.

rate/longer-term option -- makes it difficult to conclude that the 100-basis-point increase in the base rate was the major factor. It appears more likely that the switch to a policy of "testing" the need for competitive financing with less than maximum rate support was a major reason for these losses.

France and Japan tended to be the major winners in the first period, with the U.K. joining these two countries in the second period.

With about one-fourth of the 90 PC's authorized in policy period 3 resolved, initial indications are that a favorable win ratio is emerging. (The relatively low win ratio based on export values is due to the loss of one case -- the \$370 million Korean subway project.)

Table 4: Financial-Guarantee-Only Cases

Approximately two-thirds of all non-aircraft financial-guarantee-only offers made since October 1978 have now been resolved. The win ratios of 1.6-1 (by number) and .5-1 (by value) are clearly lower than those of non-aircraft/non-power cases receiving credit support. Further, about 70% (by number) of the losses have been a result of export credit competition. No clear win/loss trend has emerged with respect to product types, transaction size, or countries, however. The only distinguishing feature appears to be the type of buyer: the U.S. has won 11 out of 14 private-buyer sales, while losing all four of the public-buyer transactions.

Table 1 - Aircraft Cases Offered Direct Loan Support
(all \$ values in millions)

I. Resolutions	Policy Period 1 (10/78 - 3/80)		Policy Period 2 (4/80 - 6/81)		Policy Period 3 (7/81 - 3/82)	
	Number	Export Value	Number	Export Value	Number	Export Value
Authorized ¹	54	8755	17	1897	8	2161
Deferred	3	94	1	360	0	0
Won	44	6485	13	1138	0	0
Lost	6	1865	1	158	1	196
Win/Loss Ratio	7.3 - 1	3.5 - 1	13.0 - 1	7.2 - 1	N/A	N/A
II. Reason for Losses						
Price	2	1069	0	0	0	0
Export Credit Financing	0	0	0	0	0	0
Concessional Financing	0	0	0	0	0	0
Other Reasons	4	796	1	158	1	196

1. Any PC originally authorized in one policy period but subsequently extended at a higher interest rate under a new policy period has been counted as an authorization under the new policy period.

Table 2 - Power Cases Offered Direct Loan Support
(all \$ values in millions)

	Policy Period 1 (10/78 - 3/80)		Policy Period 2 (4/80 - 6/81)		Policy Period 3 (7/81 - 3/82)	
	Number	Export Value	Number	Export Value	Number	Export Value
I. Resolutions						
Authorized ¹	64	4886	35	1125	32	5174
Deferred	9	298	4	48	0	0
Won	27	2188	17	691	3	39
Lost	28	2400	14	386	7	724
Win/Loss Ratio	1.0 - 1	0.9 - 1	1.2 - 1	1.8 - 1	0.4 - 1	0.1 - 1
II. Reason for Losses						
Price	15	1260	8	259	2	169
Export Credit Financing	0	0	0	0	1	354
Concessional Financing	2	30	0	0	0	0
Other Reasons	11	1110	6	127	4	201
III. Source of Losses						
France	4	129	0	0	1	354
(financing losses) ²	(0/1)	(0/23)	(0)	(0)	(0)	(0)
Germany	9	552	4	57	2	63
(financing losses)	(0)	(0)	(0)	(0)	(0)	(0)
Japan	7	1248	3	123	3	294
(financing losses)	(0)	(0)	(0)	(0)	(0)	(0)
U.K.	0	0	1	15	0	0
(financing losses)	(0)	(0)	(0)	(0)	(0)	(0)
Other	8	471	6	191	1	13
(financing losses)	(0/1)	(0/7)	(0)	(0)	(0)	(0)

¹ Any PC originally authorized in one policy period but subsequently extended at a higher interest rate under a new policy period has been counted as an authorization under the new policy period.

² Values to the left of the diagonal relate to cases lost to "normal" export credit competition; values to the right relate to losses to concessional or aid-type financing.

Table 3 - Non-Air/Non-Power Cases Offered Direct Loan Support
(all \$ values in millions)

I. Resolutions	Policy Period 1 (10/78 - 3/80)		Policy Period 2 (4/80 - 6/81)		Policy Period 3 (7/81 - 3/82)	
	Number	Export Value	Number	Export Value	Number	Export Value
Authorized ¹	173	6680	104	3561*	90	5843
Deferred	57	3000	21	1228	5	110
Mon	71	2682	62	1670	10	260
Lost	48	998	19	642	5	435
Win/Loss Ratio	1.6-1	2.7-1	3.3-1	2.6-1	2.0-1	0.6-1
II. Reason for Losses						
Price	11	172	8	221	1	8
Export Credit Financing	1	8	4	251	1	10
Concessional Financing	4	42	2	38	1	31
Other Reasons	29	776	5	132	2	387
III. Source of Losses						
France	8	121	4	300	0	0
(financing losses) ²	(0/1)	(0/2)	(1/0)	(164/0)	(0)	(0)
Germany	4	49	2	41	0	0
(financing losses)	(0/2)	(0/12)	(1/0)	(6/0)	(0)	(0)
Japan	8	120	3	79	2	18
(financing losses)	(0)	(0)	(1/0)	(45/0)	(1/0)	(10/0)
U.K.	4	161	3	74	2	387
(financing losses)	(0)	(0)	(1/2)	(36/38)	(0)	(0)
Other	21	547	7	248	1	31
(financing losses)	(1/2)	(8/27)	(0)	(0)	(0/1)	(0/31)

1 Any PC originally authorized in one policy period but subsequently extended at a higher interest rate under a new policy period has been counted as an authorization under the new policy period.

2 Values to the left of the diagonal relate to cases lost to "normal" export credit competition; values to the right relate to losses to concessional or aid-type financing.

Table 4 - Non-Aircraft Cases Offered Financial-Guarantee-Only Support - October 1978-March 1982¹
(all \$ values in Millions)

I. Resolutions	Number	Export Value
Authorized	43	1677
Deferred	8	215
Won	11	198
Lost	7	382
Win/Loss Ratio	1.6-1	0.5-1
II. Reasons For Losses		
Price	1	260
Export Credit Financing	5	112
Concessional Financing	0	0
Other Reasons	1	10
III. Source of Losses		
France	2	16
(financing losses) ²	(0/1)	(0/6)
Germany	1	22
(financing losses)	(0/1)	(0/22)
Japan	1	5
(financing losses)	(0/1)	(0/5)
U.K.	1	260
(financing losses)	(0)	(0)
Other	2	79
(financing losses)	(0/2)	(0/79)

¹ No policy periods are used in this table, as Exim has not initiated specific policy changes in its financial guarantee support for non-aircraft cases over the past three years.

² Values to the left of the diagonal relate to cases lost to "normal" export credit competition; values to the right relate to losses to concessional or aid-type financing.

Senator HEINZ. Our next witnesses are the Honorable Lionel Olmer and the Honorable Marc Leland.

STATEMENTS OF LIONEL OLMER, UNDERSECRETARY FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE, AND MARC LELAND, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF TREASURY

Senator HEINZ. I would like to ask Mr. Olmer to be our leadoff. Mr. OLMER. Thank you, Mr. Chairman.

I have a statement that I would like to submit for the record and just a few brief recommendations I would like to present at this time.

It's clear that I don't need to lecture you or any other members of your subcommittee on the growing importance of exports due to the U.S. economy.

As perhaps has been stated earlier today, in 1981, U.S. exports amounted to \$234 billion and accounted for 7.8 percent of our GNP. One out of every eight jobs in manufacturing and one out of three in agriculture depends on exports. Our estimates indicate that each \$1 billion in manufactured exports now creates about 31,000 jobs.

For the last decade, U.S. exports have been growing faster than our domestic economy, although in 1981 U.S. GNP growth outpaced exports due to our economy's strength relative to those of our major trading partners. However, if the decade's export growth trend continues—and we are confident it will—exports will be even more important to future U.S. jobs and production.

U.S. EXPORTS LOSING IN INTERNATIONAL MARKETS

Despite our impressive level of exports, we are far from satisfied with these results. The truth of the matter is that we are losing in international markets.

In 1970, the United States held a 15.4 percent share of free-world exports. By 1981, that share had dwindled to 13 percent. Had we simply maintained our 1970 share and there were no offsets of imports and economic redistribution, we would have supplied \$266 billion of additional exports during the decade—\$43 billion more just in 1981. These exports could have supported 1.3 million U.S. jobs.

On a sectorial basis, the preeminence of many of our most advanced and productive industries—aerospace, electronics and telecommunications, and power generating equipment—is threatened. Exports are essential to the strength and long-term leadership of our industries. Exports provide to U.S. firms global economies of scale, a sales base that justifies continued R&D, and business opportunities to sharpen and expand technological know-how.

The increased need to meet international export competition is made more important by the current global economic climate. Inflation and unemployment are high. Protectionism is increasing. Many developing countries now are competing successfully against our industries. And there is a growing use of national industrial policies that distort markets and adversely affect our own economy and competitive capacity.

Other governments' export subsidies, collaboration with industry, and barriers to markets are making the U.S. export competitive po-

sition more difficult. We cannot ignore these developments at a time when the economy is tight, world markets are sluggish, and jobs depend on exports.

Foreign governments keenly appreciate the economic benefits of exporting. These governments recognize the limitations of their home markets. They view exporting as an integral part of their industrial policies and essential to their participation in leading high-technology industries.

SURVEYS FROM THE PRIVATE SECTOR

One of the keys to the export policies of foreign governments is the provision of competitive financing. In the United States, however, survey after survey from the private sector points to the lack of competitive financing as the No. 1 disincentive facing U.S. exporters. For example:

A recent Commerce Department survey of 47 district export councils around the Nation, comprising 1,750 exporting companies, listed financing as one of the most important problems facing exporters.

The National Federation of Independent Businesses and the International Management and Development Institute made similar surveys and found the same result.

A survey conducted by the Machinery and Allied Products Institute of 39-member companies found that over one-third of these firms had shifted some business to foreign affiliates primarily, if not exclusively, because of more attractive financing abroad. The lost exports that might have been supplied from the United States amounted to over \$300 million in this sample alone.

A recent report by the Labor-Industry Coalition for International Trade cites 11 examples of sales lost or jeopardized largely due to more competitive foreign government-supported export credits in 1981. The export value of these sales totals over \$1.1 billion and represents 34,889 job opportunities.

ADMINISTRATIVE STUDY

On July 21, the administration began a study to explore the feasibility and job-creating impact of proposed complements to federally-funded export finance. The report of the working group will focus on State-level and private sector proposals. This study is expected to be completed in November.

Improving access to credit by small- and medium-sized exporters will receive special emphasis in this report. We will examine closely the ways in which these exporters' access to credit can be expanded within sound and prudent financial standards.

PROPOSALS TO USE STATE FINANCING FACILITIES

We also are studying proposals by States on ways in which they might create financing facilities to increase the competitiveness and availability of their export firms. States have the potential to alleviate the credit problem by tapping new lending resources, equalizing interest rates, offering State-based guarantees, sharing risk with the Federal Government, and employing other mechanisms to diversify U.S. export credit facilities.

There also may be ways to improve existing financing instruments or create new ones. Notwithstanding the credit instruments

already in use, more can be done to enable companies to place export paper on the private market.

Eximbank has provided valuable support for U.S. exports. In the last fiscal year, it's \$12.8 billion of credit authorizations, which include loans, guarantees, and insurance, has supported \$18.6 billion of export business.

We need an Eximbank. Our continuing efforts to negotiate away export credit subsidies probably will require the back-up muscle of an effective and credible Eximbank program. Very large export sales might need Eximbank to supplement the supply or credit available in the private market, although we believe we should rely on the latter as much as possible. In light of the new private sector and State government interest in export financing, we look on Eximbank as the logical focal point of the Federal Government's participation in a more effective U.S. system of credit support for exports.

This is an opportune time to examine Eximbank and consider ways in which it might be made more effective to meet future demands of U.S. exports. The review of Eximbank's competitiveness by this committee in anticipation of the Bank's charter renewal is important to this process. This effort also is reflected in a number of proposed bills that would amend Eximbank's legislation, and in particular S. 2600. The administration at this time does not think the interest subsidy provision of this bill is appropriate, but will keep the provision under review. I will note, however, that it highlights some of the concerns that segments of our exporting community have over the adequacy of export financing.

Our nation cannot afford a further deterioration in the competitive position of U.S. firms in the world market. To the contrary, effective, wide-ranging cooperation in export financing between the Federal Government in the form of a strong Eximbank, State governments, and the private sector can be a major factor in the continued rebuilding of our country's economic strength and vigor. In framing an effective export strategy for the United States, we must look to those mechanisms that can apply powerful counterweights to the competition we face from abroad, provide large returns to the U.S. economy through jobs in the export sector, and enhance the U.S. position in its home and world market.

[Complete statement follows:]

STATEMENT OF LIONEL H. OLMER, UNDER SECRETARY FOR INTERNATIONAL TRADE

Mr. Chairman, members of the subcommittee, I want to discuss today (1) the competitive environment for U.S. exports, (2) the need for the Export-Import Bank, and (3) an administration initiative toward meeting this need.

THE COMPETITIVE ENVIRONMENT

In 1981 U.S. exports amounted to \$234 billion and accounted for 7.8 percent of our GNP. One out of every eight jobs in manufacturing and one out of three in agriculture depends on exports. Our estimates indicate that each \$1 billion in manufactured exports now creates about 31,000 jobs. For the last decade, U.S. exports have been growing faster than our domestic economy, although in 1981 U.S. GNP growth outpaced exports due to our economy's strength relative to those of our major trading partners. However, if the decade's export growth trend continues—and we are confident it will—exports will be even more important to future U.S. jobs and production.

Despite our impressive level of exports, we are far from satisfied with these results. The truth of the matter is that we are losing ground in international markets.

In 1970 the United States held a 15.4 percent share of free-world exports. By 1981 that share had dwindled to 13 percent. Had we simply maintained our 1970 share and there were no offsets of imports and economic redistribution, we would have supplied \$266 billion of additional exports during the decade—\$43 billion more just in 1981. These exports could have supported 1.3 million U.S. jobs.

On a sectoral basis, the preeminence of many of our most advanced and productive industries—aerospace, electronics and telecommunications, and power generating equipment—is threatened. Exports are essential to the strength and long-term leadership of our industries. Exports provide to U.S. firms global economies of scale, a sales base that justifies continued R&D, and business opportunities to sharpen and expand technological know-how.

The increased need to meet international export competition is made more important by the current global economic climate. Inflation and unemployment are high. Protectionism is increasing. Many developing countries now are competing successfully against our industries. And, there is growing use of national industrial policies that distort markets and adversely affect our own economy and competitive capacity.

Other governments' export subsidies, collaboration with industry, and barriers to markets are making the U.S. export competitive position more difficult. We cannot ignore these developments at a time when the economy is tight, world markets are sluggish, and jobs depend on exports.

Foreign governments keenly appreciate the economic benefits of exporting. These governments recognize the limitations of their home markets. They view exporting as an integral part of their industrial policies and essential to their participation in leading high technology industries.

THE NEED FOR EXIMBANK

One of the keys to the export policies of foreign governments is the provision of competitive financing. In the United States, however, survey after survey from the private sector points to the lack of competitive financing as the number one disincentive facing U.S. exporters. For example:

A recent commerce department survey of 47 district export councils around the nation, comprising 1,750 exporting companies, listed financing as one of the most important problems facing exporters.

The National Federation of Independent Businesses and the International Management and Development Institute made similar surveys and found the same result.

A survey conducted by the Machinery and Allied Products Institute of 39 member companies found that over one-third of these firms had shifted some business to foreign affiliates primarily if not exclusively because of more attractive financing abroad. The lost exports that might have been supplied from the United States amounted to over \$300 million in this sample alone.

A recent report by the labor-industry coalition for international trade cites 11 examples of sales lost or jeopardized largely due to more competitive foreign government supported export credits in 1981. The export value of these sales totals over \$1.1 billion and represents 34,889 job opportunities.

For smaller exporters access to financing seems to be the crucial bottleneck. Such exporters most often need bridge loans to carry their receivables and to secure pre-export working capital advances. Such exporters must depend on commercial bank credit lines, which are currently inadequate. The limited assets of most small businesses preclude them from obtaining the necessary financial support, even though expanded access to credit could allow them to export more.

For *medium- and large-sized exporters*, recent high interest rates have meant that private credit was less than fully competitive and that significant eximbank financing participation was necessary especially for larger sales. Eximbank's medium-term program has focused primarily on risk protection rather than interest rate support. However, I understand that Chairman Draper is testifying on a new program to help correct this.

We anticipate that U.S. financing competitiveness has improved since the period on which these surveys were based for two reasons: First, the international arrangement on export credits has recently been strengthened with increased interest rate floors. Second, market interest rates are falling. This should reduce the subsidy implicit in export credit programs.

AN ADMINISTRATION STUDY

On July 21 the Administration began a study to explore the feasibility and job-creating impact of proposed complements to federally-funded export finance. The report of the working group will focus on state-level and private sector proposals. This study is expected to be completed in November.

Special emphasis will and should be given to proposals that do not rely primarily on federal funding. At the same time, we will seek to identify ways to obtain maximum benefit from any Federal involvement in such programs.

Improving access to credit by small- and medium-sized exporters will receive special emphasis in this report. We will examine closely ways in which these exporters' access to credit can be expanded within sound and prudent financial standards.

We also are studying proposals by States on ways in which they might create financing facilities to increase the competitiveness and availability of their export firms. States have the potential to alleviate the credit problem by tapping new lending resources, equalizing interest rates, offering State-based guarantees, sharing risk with the Federal Government, and employing other mechanisms to diversify U.S. export credit facilities.

There also may be ways to improve existing financing instruments or create new ones. Notwithstanding the credit instruments already in use, more can be done to enable companies to place export paper on the private market.

CONCLUSION

Eximbank has provided valuable support for U.S. exports. In the last fiscal year its \$12.8 billion of credit authorizations, which include loans, guarantees, and insurance, has supported \$18.6 billion of export business.

We need an Eximbank. Our continuing efforts to negotiate away export credit subsidies probably will require the back-up muscle of an effective and credible Eximbank program. Very large export sales might need Eximbank to supplement the supply of credit available in the private market, although we should rely on the latter as much as possible. In light of the new private sector and State government interest in export financing, we look on Eximbank as the logical focal point of the Federal Government's participation in a more effective U.S. system of credit support for exports.

This is an opportune time to examine Eximbank and consider ways in which it might be made more effective to meet future demands of U.S. exports. The review of Eximbank's competitiveness by this committee in anticipation of the bank's charter renewal is important to this process. This effort also is reflected in a number of proposed bills that would amend Eximbank's legislation, and in particular S. 2600. The administration at this time does not think the interest subsidy provision of this bill is appropriate, but will keep the provision under review. I will note, however, that it highlights some of the concerns that segments of our exporting community have over the adequacy of export financing. We will take serious account of this over the course of our deliberations.

The long-run health of our Nation cannot afford a further deterioration in the competitive position of U.S. firms in the world market. To the contrary, effective, wide-ranging cooperation in export financing between the Federal Government in the form of a strong Eximbank, State governments, and the private sector can be a major factor in the continued rebuilding of our country's economic strength and vigor. In framing an effective export strategy for the United States, we must look to those mechanisms that can apply powerful counterweights to the competition we face from abroad, provide large returns to the U.S. economy through jobs in the export sector, and enhance the U.S. position in its home and world market.

Senator HEINZ. Mr. Olmer, thank you very much.
Mr. Leland.

**STATEMENT OF MARC LELAND, ASSISTANT SECRETARY FOR
INTERNATIONAL AFFAIRS, DEPARTMENT OF STATE**

Mr. LELAND. Thank you, Mr. Chairman. I too, have submitted for the record prepared testimony.

I appreciate the opportunity to appear before you today and would like to make just a few remarks on parts of that testimony and give the rest of it to the record.

[Complete statement of Mr. Leland and a copy of the report of the Secretary of the Treasury on International Export Credit Negotiations (1981-82) follows:]

HOLD FOR RELEASE
EXPECTED AT 9:30 A.M., EST
THURSDAY, SEPTEMBER 16, 1982

STATEMENT OF THE HONORABLE MARC E. LELAND
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE
AND MONETARY POLICY
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

Thank you, Mr. Chairman:

I am pleased to appear before this Subcommittee to review and assess U.S. export credit activities over the past year and to offer the Administration's views on the legislative proposals which have been introduced during this Congress to change the structure and functions of the Export-Import Bank. The statutory authority for the Eximbank runs out on September 30, 1983. In the coming months, the reauthorization process will offer a good opportunity to evaluate the Bank's role in the Administration's overall international economic strategy and to determine what, if any, changes are required in the Bank's charter. Considerations which will bear on this review include: (1) reductions in international export credit subsidies through international arrangements; (2) budgetary concerns associated with persistent federal deficits; and (3) strains on the world economy.

The foundation of the Administration's export financing policy rests on three basic points:

- (a) The Administration opposes official export credit subsidies;
- (b) Official export credit subsidies should be reduced, and eventually eliminated through international agreements;
- (c) Consistent with Eximbank's legislative mandate to facilitate exports, Eximbank credits should be targeted where the competition is greatest.

A non-distortive trade policy and a stringent budget policy mean increased reliance on the free market, with a reduction or elimination of subsidies. I would like to reemphasize the Administration's view that export credit subsidies reduce or eliminate the real economic gains from exporting, distort trade, and add to government demands on credit markets.

In a less-than-perfect world, however, Eximbank still has a role, within available budgetary resources, to (1) support U.S. exporters against foreign predatory financing, and (2) help offset imperfections in the capital markets. Pressure should be maintained on other governments to negotiate reductions in export credit subsidies. Even if there were no foreign export credit competition, there would still be a role for Eximbank to play in facilitating access to adequate long-term financing.

Export Credit Negotiations

During the past year improvements in the OECD Export Credit Arrangement and falling interest rates have significantly changed the milieu of Eximbank operations. In this context, I am submitting Treasury's report on this year's export credit negotiations and will summarize our assessment of the results.

Twenty months ago, the Administration launched a major effort to curb official export credit subsidies, primarily through improvements in the OECD International Arrangement on Export Credits. At that time, the Arrangement interest rates were outdated and had been well below commercial interest rates for some time. In addition, the U.S. commercial jet aircraft industry, with the support of Eximbank, was engaged in intensive competition with Airbus Industrie, supported by the export credit agencies of France, the Federal Republic of Germany, and the United Kingdom. In order to remain competitive, Eximbank was forced to offer interest rates well below its own cost of money, resulting in substantial losses and reductions in retained earnings in future years.

The Administration's efforts to reduce export credit subsidies have been increasingly successful. Improvements in the Export Credit Arrangement have been made in two stages: (1) across-the-board interest rate increases in November 1981; and (2) reclassification of borrowing countries (with the effect of substantially reducing the interest rate subsidies to key markets) and moderate increases in interest rate minima in June 1982.

The new Arrangement provisions have significantly increased the competitiveness of the Eximbank without further undermining its financial position. Prior to revisions in the Arrangement in November 1981, the negative spread between Eximbank's lending rate and its cost of money amounted to 495 basis points at the same time as it offered credits 284 basis points above Arrangement matrix interest rates. Improvements in the Arrangement have enabled Eximbank to narrow, and eliminate in some instances, the negative spread and better match foreign export credit terms. As a result, the subsidy element of Eximbank lending, whether measured in terms of its cost of money or compared to prime commercial lending rates, has fallen from a peak of 495-588 basis points in the third quarter of 1981 to its current level of 160-268 basis points.

The decrease in allowable foreign export credit subsidies is most dramatic in France (from 870-973 basis points to the current level of 500-606 basis points) and the United Kingdom (from 736-932 basis points to a current level of 354-400 basis points). The subsidy element in officially supported lending of Japan and the Federal Republic of Germany has been eliminated. When the phase-in of new Arrangement terms is completed on January 1, 1983, the subsidy element will decrease an additional 50 basis points. Overall, Arrangement improvements and falling market interest rates since autumn of 1981 have cut export credit subsidies by more than 50 percent.

The new terms of the Arrangement reclassify borrowing countries on more rational grounds. Most of the official export credit competition occurs in the advanced developing countries, where the Export-Import Bank does 75 percent of its long-term non-aircraft financing. Under the reclassification scheme, most of Eximbank's major borrowers -- including Korea, Taiwan, Mexico, and Brazil -- graduated into the intermediate category for which higher rates are applicable. In addition, reclassification corrects an anomaly which had allowed the Soviet Union, Czechoslovakia, and the German Democratic Republic (clearly highly industrialized countries) to receive the more preferential rates available to advanced developing countries. Although the U.S. Eximbank does not offer credits to these countries, the new Arrangement terms will effectively reduce the trade subsidies offered to Eastern Europe by other OECD countries.

Subsidized credits for exports into the U.S. market have become an irritant in economic relations with other

Arrangement Participants. Although the European Community could not agree to ban export credit subsidies among Participants, the EC (and other Participants) did acquiesce to significant increases in category I rates and pledged not to derogate in interest rate or repayment term from the Arrangement after October 15, 1982. If interest rates hold or decrease, the new category I rates (12.15 percent for medium-term credits and 12.40 percent for long-term credits) should mitigate the problem of subsidized foreign export credits into the United States.

The negative spread between Eximbank's lending rate and its cost of money has been reduced to 70 basis points since November 1981. Shortly after the new Arrangement entered into force in July 1982, Eximbank also adopted a three-tiered interest rate structure for long-term credits: 12.4 percent for relatively rich countries, 12.0 percent for intermediate countries, and 11.0 percent for relatively poor countries. The spread between Eximbank interest rates and matrix interest rates has been substantially narrowed to 100 basis points for category III countries, 65 basis points for category II countries, and equality for category I countries. The weighted average difference will only amount to 60 basis points as of January 1, 1983. Taking into account additional credit fees, which vary among export credit agencies, the differences between the interest rates charged by Eximbank and those of its foreign counterparts are negligible.

In addition, we reached an understanding with the Japanese Ministry of Finance which enables the Eximbank to guarantee yen credits at the same rate as the Japanese program supports its exporters. Hence, Eximbank is able to offer guarantees in yen, Deutsche marks, and Swiss francs, which significantly enhance Eximbank's competitiveness with low-interest-rate countries.

The ban on mixed credits with a grant element less than 20 percent will help control the most egregious form of predatory financing. Since mixed credits with a grant element greater than 25 percent are considered official development assistance (and thus beyond the purview of the Arrangement), mixed credits with a grant element between 20 and 25 percent remain the primary concern in export credit competition. Under the Arrangement, Participants are required to notify such mixed credits in advance.

The United States Government and the governments of the Airbus financing partners (France, Germany, the United Kingdom) carried on separate negotiations to reduce export credit subsidies for large transport aircraft, which are not covered by the Arrangement. After over a year of negotiations, these governments agreed in the fall of 1981 to limit official financing support for large transport aircraft sales. This "Common Line" reduced the subsidies primarily through a 12 percent floor on interest rates and sharp declines in the percentage share, or cover, of official financing.

The Administration continues to attach a high priority to the elimination of export credit subsidies. The next stage is to negotiate sector agreements to reduce the export credit subsidies available for nuclear power plants and small- and medium-sized aircraft and to improve the Common Line for commercial jet aircraft. Throughout the coming year, the Administration will lay the foundation for further improvements in the OECD Export Credit Arrangement, based on the following four points: (1) higher minimum interest rates; (2) differentiation in interest rates by currency; (3) automatic adjustment of interest rates; and (4) a ban on export credit subsidies which support trade between OECD countries.

Legislative Proposals

A number of bills are before Congress which would change the structure and functions of the Export-Import Bank. Taken together, these proposals would (1) establish a special fund, a so-called "war chest," to supplement Eximbank's financial resources; (2) remove Eximbank from normal budgetary procedures; (3) restructure Eximbank's Board of Directors; (4) mandate Eximbank direct credits for agriculture; (5) set aside a required share of Eximbank lending authority for promoting exports by small businesses; and (6) amend Section 1912 procedures for countering export credit subsidies into the U.S. market.

(1) H.R. 3228, S. 868, and S. 2600 would each establish a special fund (ranging from \$1-2 billion) to supplement Eximbank's financial resources. The primary objective of the special fund is to enable Eximbank, without incurring losses in its financial resources, to match extraordinary foreign official credit subsidies in order to induce foreign governments to negotiate reductions in export credit subsidies. In my view, these proposals

supported our negotiating effort in the past 20 months by underscoring the high priority which Congress attached to the export credit negotiations. In addition, this legislation was positive proof that the Administration's basic objective -- the elimination of export credit subsidies -- enjoyed broad support in the U.S. Congress and by the Chairman of this Committee in particular.

In light of our negotiating success in the last 20 months, however, the Administration does not believe the proposals being considered by Congress are now warranted:

-- Recently negotiated reductions in international export credit subsidies in the OECD Arrangement obviate the need for a special fund. The differences between Eximbank's lending rates and those of other export credit agencies are now negligible. In addition, the new Arrangement curtails the use of "extraordinary financing" by banning mixed credits with a grant element less than 20 percent.

-- The proposed bills could have a significant budgetary cost and would expand benefits to certain sectors of the economy when many other sectors are expected to accept significant cuts in government programs. S. 2600 and H.R. 3228 establish fixed interest rate support programs for the private sector, which would assist commercial banks and result in uncontrollable and unpredictable future outlays for interest rate subsidies. The program would be unnecessarily expensive because it would subsidize commercial rates rather than Eximbank's cost of money.

-- The Administration has already requested \$3.8 billion for the Eximbank's direct lending program and \$8.0 billion for the guarantee and insurance program for FY 83. The Eximbank already has ample program authority and flexibility at this time to meet specific challenges from foreign official competitors.

(2) S. 2600 would provide that the receipts and disbursements of the Eximbank be exempt from any annual expenditure and net lending outlays limitations imposed on the Federal budget. The Administration opposes exempting Eximbank receipts and disbursements from the Federal Budget, because the provision would effectively remove Eximbank activities from the full discipline of the budget process and weaken fiscal management and control by the Congress and the Executive Branch. The budget process underscores the implicit trade-offs necessary

among government programs. In order for the Congress to decide on budget totals and to make priority allocations among functions under the budget process, it must have complete information on the total (i.e., gross) levels of federal activities.

(3) S. 2600 would provide that the members of the Board of Directors of the Export-Import Bank serve for terms of four years, except that two of those Directors (other than the President and First Vice President of the Bank) would be appointed initially for terms of two years, and then for terms of four years thereafter. Since the Eximbank is an important instrument of U.S. trade policy, the Board of Directors should be responsive to the Administration in office. The Administration strongly endorses the current structure of the Bank, which holds Board members directly accountable to the President for their decisions and ensures consistency in the implementation of U.S. trade policy.

(4) S. 2600 would authorize Eximbank to offer direct credits to support agricultural exports as well as manufactures and services. Although we are concerned with the need to expand agricultural exports, a subsidized direct credit program would not help reduce subsidies, but would instead encourage other countries to establish similar facilities. The Administration feels that the Commodity Credit Corporation guarantee program of \$2.8 billion is adequate to fulfill the export credit requirements for agriculture and is already operating successfully.

(5) S. 2781 would require Eximbank to set aside at least 12 percent of its loan authority annually for transactions involving loans of \$5,000,000 or less. The Administration concurs with the apparent intent of the proposed amendment, i.e., to facilitate export financing for small businesses. However, we cannot support the specific provisions of the bill because they would impede Eximbank's operational flexibility and would only encourage small transactions, not necessarily promote small business. Eximbank has earmarked the \$100 million discount loan program to meet the needs of small businesses in FY 83. In addition, Eximbank developed a Small Business Program in 1978 which offers increased coverage against political and commercial risks of nonpayment on a U.S. exporter's foreign sales.

(6) A number of proposals have been introduced to amend Section 1912 of the Eximbank Act, the section which enables Eximbank to match foreign export credit subsidies into the United States market, under certain conditions. In general, they would (a) require that the foreign financing be only a "relevant" factor rather than a "determining" factor in the sale, (b) substantially reduce the discretionary elements in the present law by requiring the Secretary of the Treasury to authorize, and the Eximbank to match, whenever the new criterion was met, and (c) establish time limits for application of the law in each case.

It is possible the Administration may decide eventually to support some modification of 1912, but it is too early to judge whether Section 1912 needs amending or not. We have had experience with only one case, and that case contained unusual elements, such as the nature of the buyer (a local governmental entity which can issue tax-exempt bonds) and the large amount of financing required. We do believe it essential to preserve latitude for judgment in the application of the statute rather than making it an automatic process, in order to ensure that it is used in cases which truly turn on the use of predatory financing. To provide matching financing in all cases where foreign "noncompetitive" financing into the United States exists, would establish an unacceptably expensive and unnecessary subsidy entitlement program.

Extension of Eximbank's Statutory Authority

The Administration supports the extension of the Eximbank's statutory authority until September 30, 1988. In anticipation of the reauthorization process, the National Advisory Council, which is chaired by the Treasury, will be carefully evaluating the Bank's role in U.S. trade policy and the effectiveness of its programs in meeting U.S. international economic objectives in order to determine what, if any, changes are required in the Bank's charter. I look forward to sharing our findings and working with the Congress during the reauthorization process.

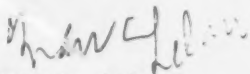
REPORT OF THE SECRETARY OF THE TREASURY**INTERNATIONAL EXPORT CREDIT
NEGOTIATIONS (1981-1982)**

Pursuant to Section 381(b) of P.L. 97-35, the Omnibus Reconciliation Act of 1981, I am pleased to submit the report on the International Export Credit Negotiations (1981-1982) on behalf of the Secretary of the Treasury.

The report assesses the progress that has been made in the negotiations within the Organization for Economic Cooperation and Development (OECD) on improving the International Arrangement on Guidelines for Officially Supported Export Credits and in other multilateral or bilateral negotiations to improve other arrangements, standstills, minutes, and practices involving official export financing in which the United States participates. The report also evaluates the need for legislation to enhance the ability of the Export-Import Bank of the United States (Eximbank) to offer or support export credit fully competitive with the subsidized official export credit offered by other governments, in order to improve the prospects for successful conclusion of these negotiations.

The Administration has been increasingly successful in the past year in reducing international export credit subsidies. Major improvements have been negotiated in the OECD Arrangement in November, 1981 and again in June, 1982. In September, 1981, the United States, the United Kingdom, France, and the Federal Republic of Germany agreed to a "Common Line" to reduce export credit subsidies for large commercial jet aircraft. As a result of these negotiations, export credit subsidies have been reduced by more than 50 percent since November, 1981.

In light of the negotiating successes of the past year, the Administration believes that legislation is not warranted at this time to supplement Eximbank's financial resources in order to improve the prospects for successful negotiations to reduce export credit subsidies. The new Arrangement provisions have significantly improved the competitiveness of the Eximbank. The Administration continues to attach a high priority to export credit matters. Throughout the coming year, we will continue to press for reduction and eventual elimination of export credit subsidies.


Marc E. Leland

Assistant Secretary for International Affairs
Department of the Treasury

September 16, 1982

INTERNATIONAL EXPORT CREDIT
NEGOTIATIONS (1981-1982)

I. Introduction and Summary

The foundation of the Administration's export financing policy rests on three basic points.

(A) The Administration opposes official export credit subsidies.

(B) Official export credit subsidies should be reduced and eventually eliminated through international agreements.

(C) Consistent with the legislative mandate of the Export-Import Bank of the United States (Eximbank) to facilitate exports, Eximbank credits should be targeted where the competition is greatest.

A non-distortive trade policy and a stringent budget policy mean increased reliance on the free market, with a reduction or elimination of subsidies. Export subsidies transfer resources from individual and corporate domestic taxpayers to importing countries and corporations engaged in exports. Financing Eximbank's operations also requires increased federal demands on capital markets, potentially competing with private sector financing. Government-imposed distortions such as export credit subsidies undermine the principles of comparative advantage in international trade.

Nonetheless, a strong and effective Eximbank is still needed (1) to support U.S. exporters against foreign predatory financing, and (2) to help offset imperfections in the capital markets. Pressure should be maintained on other governments to negotiate reductions in export credit subsidies. Even with the elimination of foreign export credit subsidies, the Eximbank should still fulfill the need to facilitate access -- when appropriate -- to long-term fixed rate financing.

Twenty months ago the Administration launched a major effort to curb official export credit subsidies, primarily through improvements in the OECD International Arrangement on Export Credits. At that time, the minimum interest rates of the Arrangement were outdated and well below commercial interest rates. In addition, the U.S. commercial jet aircraft industry, with the support of Eximbank, was engaged in intensive competition with Airbus Industrie, supported by the export credit agencies of France, the Federal Republic of Germany and the United Kingdom. In order to remain competitive, Eximbank offered interest rates well below its own cost of money, resulting in substantial losses and reductions in retained earnings in future years.

The Administration's efforts to reduce export credit subsidies have been increasingly successful during the past year. Improvements in the Arrangement on Export Credits have been made in two stages: (1) across-the-board interest rate increases in November 1981; and (2) reclassification of borrowing countries (with the effect of substantially reducing interest rate subsidies to key markets) and moderate increases in interest rates in June 1982. In addition, the United States reached an agreement in September 1981 with the United Kingdom, France and Germany to limit export credit subsidies for large commercial jet aircraft by reducing the portion of subsidized financing and setting minimum interest rates and maximum repayment terms. As a result, the Eximbank has been able to reduce the drain on its financial reserves while remaining competitive with foreign export credit agencies.

The Administration does not believe a special fund to supplement Eximbank resources to combat intensive export credit subsidies by foreign governments is now necessary. Recent improvements in the Arrangement virtually eliminated major differentials between Eximbank's lending rates and those of other export credit agencies; thus, funding for Eximbank over and above normal budget authorizations would be unnecessary. In addition, the creation of such a fund would have significant budgetary costs. The Eximbank already has ample budgetary authority and program flexibility to meet foreign official competition for FY 83. Finally, the Administration wants to avoid the financial and trade distortions which would result from increased export credit subsidies.

II. International Arrangement on Export Credits

The International Arrangement on Export Credits has been the centerpiece of United States efforts to curb export credit subsidies. During the past three years, the United States has focused on improving the Arrangement to bring its interest rate provisions closer to financial market conditions. Major components of the U.S. approach have been the following:

- Minimum interest rates in the Arrangement matrix should be increased to reflect more closely commercial rates of interest;

- Minimum interest rates should automatically respond to financial market movements (so-called "automaticity") rather than be subject to multinational renegotiation for every change;

- Minimum interest rates should be differentiated by currency in order to fully reflect different financial market conditions; and

- The Arrangement should provide greater discipline over mixed credits, those combining official credits on Arrangement terms with concessional foreign aid funds.

Several of our foreign trading partners, on the other hand, have sought to retain their export credit subsidies to help strengthen a weak trade balance or to support a favored industrial sector. The pressure to subsidize export financing has mounted in recent years as the climb in commercial interest rates and the slowdown in economic activity in most of the industrialized countries led some governments to subsidize exports as a way of maintaining employment.

The export credit subsidy problem reached critical proportions during 1981. Table 1 summarizes interest rate movements in the major exporting countries and compares them with Arrangement minima since 1978, when the Arrangement entered into force. The subsidy element -- whether measured by the prevailing prime commercial interest rates or by the cost of money to governments -- peaked in all currencies during the third quarter of 1981. In the United States, Eximbank was lending at an interest rate 495 basis points below its borrowing cost from the Federal Financing Bank and 588 basis points below the yield on prime commercial bonds. The Eximbank lending rate was still 284 basis points above the Arrangement's weighted average minimum interest rate.

TABLE 1
INTEREST RATE MOVEMENTS (1978-1982)

Year (Calendar)	Weighted Arrangement Rate ¹	UNITED STATES			FRANCE			UNITED KINGDOM			FRG			JAPAN			IMR Rate (Unified Moving Matrix)
		Weighted Eximbank Rate ²	FWB Rate ³	Long-Term Treasury Bond Yield	U.S. Corporate Bond Yield	Government Bond Yield	Corporate Bond Yield	Government Bond Yield	Corporate Bond Yield	Government Bond Yield	Corporate Bond Yield	Government Bond Yield	Corporate Bond Yield				
1978																	
QI	7.56	8.75	8.024	8.19	8.60	9.54	12.08	11.51	12.20	5.4	5.68	6.12	6.38	7.97			
QII	7.56	8.75	8.422	8.43	8.95	9.07	11.39	12.63	12.98	5.4	5.73	6.01	6.21	8.26			
QIII	7.56	8.75	8.496	8.56	8.90	8.28	10.78	12.64	12.87	6.0	6.14	6.15	6.24	8.24			
QIV	7.56	8.75	9.023	8.78	9.25	8.43	10.27	13.10	13.33	6.2	6.80	6.08	6.94	8.37			
1979																	
QI	7.56	8.75	9.351	9.03	9.38	8.12	10.11	13.32	12.62	6.7	7.10	6.48	7.46	8.65			
QII	7.56	8.75	9.491	9.08	9.15	8.77	11.12	12.10	13.00	7.5	7.90	7.83	8.05	9.09			
QIII	7.56	8.75	9.419	9.03	9.70	10.20	11.88	12.38	12.88	7.6	7.80	7.84	7.79	9.25			
QIV	7.56	8.75	10.559	10.18	10.75	10.84	12.92	14.14	14.96	7.9	8.20	8.60	8.34	10.24			
1980																	
QI	7.56	8.75	13.233	11.78	13.75	12.49	14.80	14.44	14.99	8.7	9.40	9.27	8.75	11.89			
QII	7.56	8.75	9.998	10.38	10.63	12.98	14.16	14.02	13.98	8.8	8.90	9.22	8.23	10.13			
QIII	7.91	8.75	11.352	10.95	12.88	12.84	14.03	13.34	13.78	7.9	8.40	9.05	8.44	10.82			
QIV	7.91	8.75	13.003	12.23	13.00	13.63	15.23	13.34	14.21	8.6	9.50	9.31	8.60	11.54			
1981																	
QI	7.91	8.75	13.333	12.74	14.00	14.08	15.39	13.84	14.35	9.8	10.90	8.63	8.15	11.82			
QII	7.91	8.75	13.715	13.49	14.63	15.74	15.87	14.17	15.31	10.6	11.70	8.67	8.22	12.50			
QIII	7.91	10.75	15.701	14.50	16.63	16.61	17.64	15.27	17.73	11.1	11.90	9.03	8.09	13.40			
QIV	10.21	12.00	13.042	14.14	15.50	16.21	17.33	15.68	16.55	10.0	10.50	8.31	7.70	12.50			
1982																	
QI	10.21	12.00	13.913	14.31	15.36		16.99	14.68	14.60	9.7	9.90	7.76	7.34	12.17			
QII	10.21	12.00	13.604	13.11													
QIII	10.93	11.99	12.732														
QIV	10.93																
1983																	
QI	11.39																
QII																	

1/ The Weighted Arrangement Rate is calculated by weighting the long-term interest rates for

1/ The Weighted Arrangement Rate is calculated by weighting the long-term interest rates for Category I countries, Category II countries, and Category III countries by each category's share of officially-supported export credits.

2/ The Eximbank charged a uniform interest rate for all direct credits, until the third quarter of 1982, when it adopted a three-tiered interest rate system. The Weighted Eximbank Rate for that quarter is calculated in the same manner as the Weighted Arrangement Rate.

3/ The quoted FRB rate is for Eximbank borrowings repayable in 40 quarterly installments.

4/ Repayable in 10 quarterly installments.

The negative spread in France was 870 basis points below the yield on government bonds and 973 basis points below commercial rates, while the United Kingdom faced negative spreads of 736 and 932 basis points respectively. Even government bond yields in low interest rate countries, such as the Federal Republic of Germany and Japan, exceeded Arrangement minima by a substantial margin. The Arrangement interest rates were clearly outdated and ineffective in limiting export credit subsidies.

Negotiations in 1981: Progress was frustratingly slow in negotiating improvements in the Arrangement during 1980 and 1981. The United States, Japan, and the EC faced an impasse in OECD export credit negotiations during meetings in December 1980 and May 1981. In spite of commitments made at both the OECD Ministerial and the Venice Summit in 1980, the EC was able to agree to no more than a trivial increase in Arrangement interest rates in that year with no change in the method of setting rates, i.e., no movement toward automaticity. An additional complication was that the Arrangement minimum rates already were substantially above Japanese market rates. Japan was justifiably reluctant to agree to minimum rates, which obliged it to charge a premium while allowing others to subsidize with impunity.

In forming its strategy for the 1981 negotiations, the Reagan Administration concluded that using Eximbank to match subsidized foreign competition is a useful but not a decisive means of inducing other countries to reduce their subsidies. The Administration, therefore, developed a coordinated approach combining political and economic steps designed to give the negotiations maximum visibility in bilateral and multilateral meetings:

-- Secretaries Regan and Baldrige, and Ambassador Brock, stressed the importance of the credit subsidy issue in virtually every meeting with their counterparts from other countries participating in the negotiations.

-- Deputy Secretary of the Treasury McNamar visited the Finance Ministers in Bonn, Paris and London specifically to urge rapid, successful conclusion of the export credit negotiations.

-- The United States sought and won the commitment of the OECD Ministers to resolve this problem before the end of 1981.

-- The United States raised export credits at the Ottawa Summit.

-- The Administration began building a broad domestic consensus for its negotiating position through a series of meetings with industry and Congress.

-- The Congress expressed its willingness to counter foreign export credit subsidies in Resolution 93, the so-called War Chest Bills, and in numerous hearings.

These efforts encouraged the Council of EC Financial Ministers in September 1981 to approve a revised negotiating mandate which began to take account of recent financial market movements. The EC initially suggested that a matrix with minimum interest rates between 9.5 and 9.75 percent for loans to LDCs should apply to most currencies. The EC did concede that Japan should be allowed to charge a minimum interest rate for the yen that was below this suggested matrix. As a means of offsetting Japan's apparent success in capital goods exports, however, the EC suggested that the Japanese Eximbank be forced to charge a premium above the rate used by Japanese commercial banks (the Long Term Prime Rate).

The EC argued that this premium was justified because of the advantages of official lending, such as: (1) the assured availability of financing from official -- as opposed to private -- sources for exports; (2) official repayment maturities slightly longer than the private commercial banks could offer; (3) the ability to accept repayment risks that private lenders might be unwilling to accept; and (4) the ability of official institutions to offer a fixed interest rate which a buyer has a year to accept or reject.

The United States believed that some level of premium was justified for yen financing due to foreigners' lack of access to the yen capital market. We contended that the premium would offset Japan's advantage resulting from its virtual monopoly in yen financing. The reasons cited by the EC are not unique to Japan, however. They argue for a premium on any country's export credit agency's loans.

The United States felt that the EC position of 1.0 to 1.5 percent increases in the basic matrix rates was only a modest first step toward the ultimate goal of aligning official credit rates with market rates. As Table 1 shows, an increase of 5 or 6 percent would have been preferable. The history of the negotiations made clear, however, that immediate increases of that magnitude were not likely to be accepted by the EC and many others, who feared disruption of export markets.

The United States, therefore, suggested an increase in the matrix rates of 4 percent -- which would have brought the overall matrix up to about 12 percent. The EC demurred, but finally proposed a modest increase in their matrix-rate offer and a commitment to revise the rates further at a special meeting of the Arrangement participants, scheduled for March 1982, two months prior to the regular May meeting.

The compromise, which lowered subsidies in some currencies by 30-40 percent, took effect November 16, 1981. The minimum interest rates established in November are summarized in Table 2. (The old minimum interest rates are in parentheses for comparison.)

Table 2

	<u>2 - 5 years</u>	<u>5 - 8.5 years</u>	<u>Over 8.5 years</u>
Rich Country	11.0% (8.5%)	11.25% (8.75%)	not applicable
Intermediate	10.5% (8.0%)	11.0% (8.5%)	not applicable
Poor Country	10.0% (7.5%)	10.0% (7.75%)	10.0% (7.75%)

The suggested minimum interest rate for the yen (and other currencies that might have commercial lending rates below the new matrix rates) was fixed at 9.25 percent, which was still higher than the Japanese prime rate. Nonetheless, Japan accepted the compromise since the benefits of reducing its competitors' subsidies outweighed the costs of a premium on Japanese Eximbank lending.

The Arrangement of November 1981 represented only partial achievement of U.S. export credit objectives.

-- The matrix rates, although substantially reducing the export subsidy, were still well below financial market rates.

-- Rate adjustments still had to be negotiated, rather than revised automatically. However, the Wallen Report, prepared by the Chairman of the OECD Export Credits Group, Axel Wallen of Sweden, in 1980 to evaluate two automatic mechanisms, remained a focal point of continuing OECD discussions. The Wallen Report considered a differentiated rate system based on the secondary market yield of long-term government bonds.

-- The Arrangement only implicitly endorsed currency differentiation by recognizing a different rate for the yen.

-- The Arrangement called for modestly greater transparency over mixed credits, but such credits still faced less stringent notification requirements under the Arrangement if the grant element were greater than 25 percent.

Negotiations in 1982: The United States launched its 1982 effort to improve the Arrangement at the special meeting of Participants held March 10-12, 1982. The United States delegation emphasized that the consensus should move quickly toward market rates and suggested a 2 percent across-the-board increase in matrix rates immediately, followed by a further 1.5 percent increase in July. In addition, the delegation urged a ban on any subsidized credits for exports to industrialized countries (Category I) or at least among Participants. Several other delegations, including the Nordic countries, Canada, and Switzerland, supported this idea.

The European Community was unwilling to commit itself to any revisions in interest rates. The EC spokesman argued that dollar interest rates were high and erratic. Higher export credit rates could have a serious impact on the world economy, he argued. The EC also insisted that the minimum rate for countries with low interest rates, such as Japan, should remain at 9.25 percent. Implicit in the EC position was a reluctance to reduce export credit subsidies at a time of high unemployment in Europe and of uncertainty of European economic recovery.

The March meeting failed to amend the Arrangement, but did establish the foundation for continued negotiations in May. Participants agreed that consensus was now possible on (1) making interest rate changes effective immediately after they are negotiated; and (2) limiting the duration of prior commitments (including interim rates on credit lines) to six months. In the course of the discussions, Participants appeared willing to address the key interest rate issue at the Group's May meeting through a combination of reclassification of major borrowing countries into higher-rate categories and an increase of interest rates.

The Arrangement's classification system of borrowing countries, which determines the applicable interest rate, Participants agreed, was outdated. For example, the USSR -- clearly a relatively rich industrialized country -- was still classified as an intermediate, rather than a relatively rich country. In addition, intermediate countries such as Korea

and Brazil were classified as relatively poor, along with Bangladesh. The United States developed a reclassification proposal for the May negotiations designed (1) to reclassify the Soviet Union as a relatively rich country; (2) to move the newly industrialized countries, which incidentally comprise about three-quarters of Eximbank's non-aircraft lending, into the higher-rate intermediate category; and (3) to establish objective criteria for automatically graduating countries into higher categories.

The United States position at the May meeting interwove interest rate increases and borrowing country reclassification to bring Arrangement rates closer to market rates. First, the United States proposed a reclassification scheme in which (1) countries with per capita GNP greater than \$3500 (1979 data) would be classified relatively rich (category I); (2) the relatively poor countries (category III) would be limited to the IBRD list of countries eligible for IDA loans or on the UN list of "least developed countries"; and (3) all other countries would be designated intermediate (category II). Secondly, all minimum interest rates in the matrix would be increased. Thirdly, subsidized export credits would be banned for exports to Category I countries. Finally, all revisions in the Arrangement would take effect immediately.

The Nordic countries (Finland, Norway and Sweden) proposed a reclassification system which defined relatively rich countries as those countries with per capita GNP above \$4000 and limited relatively poor countries to the IDA-eligible. The Nordics suggested that rate increases be tied to the IBRD lending rate (currently 11.6 percent): the IBRD lending rate plus 1.0-1.5 percent for category I; the IBRD lending rate plus 0.5-1.0 percent for category II; and the IBRD lending rate less 0.5 percent for category III. The Nordics supported a ban on export credit subsidies among Arrangement Participants.

The reluctance of the European Community to any substantial revision of the Arrangement was embodied in their initial negotiating mandate. The EC opposed (1) any increase of the minimum matrix lending rates, (2) the proposed ban on export credit subsidies among Participants, and (3) any change in the special provisions for low-interest rate countries such as Japan. The EC agreed to the Nordic reclassification scheme, with two caveats: (1) Greece and Ireland would be downgraded to category II; and (2) the graduation of category III countries into category II would be phased in over one to two years.

The Arrangement Participants were unable to hammer out a generally acceptable agreement because of the wide disparity between the views of the European Community and other Participants. In order to break the impasse, the Chairman of the OECD Group, Axel Wallen of Sweden, offered the following compromise, which, if accepted, would have entered into force retroactively on May 10, 1982:

-- Borrowing countries would be classified in accordance with the Nordic proposal.

-- Both medium-term and long-term matrix rates for Category I countries would be raised 125 basis points, while Category II rates would increase 50 basis points for medium-term credits and 60 basis points for long-term credits.

-- Participants would agree not to derogate on repayment term or interest rates, and not to extend mixed credits with a grant element less than 20 percent.

-- In countries with commercial lending rates below the matrix level, officially-supported export credits could be refinanced at a final blended rate below the matrix level, provided this blended rate is at least 30 basis points above the domestic commercial lending rates. Japan agreed that yen financing would be open to all Participants.

-- The validity of prior commitments would be limited to six months.

-- Participants had until May 25 to accept the compromise, or the Arrangement would expire.

As France, Ireland and Greece could not agree to the new terms, the European Community asked for an extension until June 15. The United States and other Participants reluctantly granted the extension. The European export credit agencies also continued to offer credits at previous Arrangement rates, ignoring the May 10th entry-into-force provision of the Chairman's compromise proposal. At the same time, the Administration began to develop contingency strategies, should the Arrangement collapse.

Prior to the June 15th deadline, the EC Council of Finance Ministers adopted a new negotiating mandate which modified the Wallen compromise without threatening its fundamental components. In order to prevent the Arrangement from unraveling, Chairman Wallen issued a new compromise and a

new deadline of June 25th. After a short period of additional reflection, the European Community accepted the new Arrangement on June 30.

Highlights of the Current Arrangement: The major revisions embodied in the new Arrangement are as follows:

-- Borrowing countries are reclassified according to objective criteria. Countries with per capita GNP greater than \$4000 (1979 data) would be classified relatively rich (category I). Countries eligible for IDA credits or on the UN list of "least developed countries" would be classified relatively poor (Category III). All other countries would be classified as intermediate (Category II).

-- Minimum interest rates would be increased 115 basis points for Category I and 35 basis points for Category II, while Category III rates would remain unchanged.

-- Countries newly graduated from Category III to Category II would be "phased" into the higher rates in order to soften the impact of the combined reclassification and rate increase. Effective immediately, the minimum interest rate would increase to 10.5 percent for medium-term credits and to 10.75 percent for long-term credits. On January 1, 1983, the new Category II interest rates would be applicable to these countries. The maximum repayment term for countries newly graduated into Category II would remain at 10 years.

-- Japan agreed to charge a blended rate 30 basis points over their commercial long-term prime rate for yen loans. Moreover, the Japanese agreed to open their capital market to allow foreign export credit agencies to offer yen financing.

-- Participants pledged not to derogate from these minimum interest rates and maximum repayment terms and not to offer mixed credits having a grant element of less than 20 percent. The non-derogation pledge would take effect October 15, 1982.

Table 3 summarizes the new interest rate matrix.

Table 3

Classification of Borrowing Country	New Interest Rates (Post Nov. '81 Interest Rates) (Pre Nov. '81 Interest Rates)		
	<u>2-5 Years</u>	<u>5-8.5 Years</u>	<u>8.5-10 years</u>
I. Relatively Rich GNP/capita of \$4000 and over	12.15%(11%) (8.5%)	12.4%(11.25%) (8.75%)	No Credits
II. Intermediate countries	10.85%(10.5%) (8%)	11.35%(11%) (8.5%)	No Credits
Countries Newly Graduated from III to II			
effective immediately:	10.5%(10%) (7.5%)	10.75%(10%) (7.75%)	10.75(10%) (7.75%)
effective 1/1/83	10.85%	11.35%	11.35%
III. Poorest Countries	10%(10%) (7.5%)	10%(10%) (7.75%)	10%(10%) (7.75%)

Analysis of the Current Arrangement

The most recent terms of the Arrangement primarily reduce export credit subsidies by reclassifying a number of major borrowing countries into higher-rate categories. Table 4 lists countries by category and summarizes the reclassification results. Most of the official export credit competition occurs in the advanced developing countries, where the Export-Import Bank of the United States does about 75 percent of its long-term non-aircraft financing. Under the reclassification scheme, most of Eximbank's major borrowers -- including Korea, Taiwan, Mexico and Brazil -- graduated into the higher rates applicable to intermediate countries. For these countries, the current improvements combined with those of last autumn increase the minimum interest rates by 3.6 percentage points over last year's rates, to be phased in by the end of the year.

Table 4COUNTRY CLASSIFICATION
(Preliminary List)Category I Countries

Andorra
 Australia
 Austria
 *Bahrain
 Belgium
 Bermudas
 *Brunei
 Canada
 *Czechoslovakia
 Denmark
 (a) Continental zone;
 (b) Overseas zone:
 - Greenland
 - Faroe Islands
 Finland
 France
 (a) European zone;
 (b) Overseas Departments:
 - Guadeloupe
 - Guyane
 - Martinique
 - Reunion
 - St. Pierre and Miquelon
 (c) Overseas Territories:
 - French Antarctic Territories
 - New Caledonia
 - French Polynesia
 - Wallis and Futuna
 (d) Mayotte
 *German Democratic Republic
 German Federal Republic
 *Gibraltar
 *Greece
 Iceland
 *Ireland
 *Israel
 Italy
 Japan
 Kuwait

Note: The status of a few dependencies is not yet determined.

*Countries now in Category I that were in Category II before July 6, 1982.

Libya
 Liechtenstein
 Luxembourg
 Monaco
 Netherlands
 (a) European zone
 New Zealand
 (a) Continental zone;
 (b) Overseas zone:
 - Cook Islands
 - Ross Dependency
 - Nive
 - Tokelau
 Norway
 Qatar
 San Marino
 Saudi Arabia
 *Spain
 Sweden
 Switzerland
 United Arab Emirates:
 - Abu Dhabi
 - Ajman
 - Dubai
 - Fujairah
 - Ras al Khaimah
 - Sharjah
 - Umm al Qaiwain
 United Kingdom
 (a) European zone;
 (b) Overseas zone:
 1. Central America and the Caribbean:
 - Virgin Islands
 United States
 (a) Member States of the Union;
 (b) Overseas zone:
 - Guam
 - Northern Marianas
 - Puerto Rico
 - American Samoa
 - American Virgin Islands
 *USSR
 Vatican

*Countries now in Category I that were in Category II before
 before July 6, 1982.

Category II Countries

*Albania
 *Algeria
 Antigua
 Argentina
 Bahamas
 Barbados
 *Belize
 *Botswana
 *Brazil
 Bulgaria
 *Chile
 *Colombia
 *Costa Rica
 *Cuba
 Cyprus
 *Dominican Republic
 *Ecuador
 *Fiji
 Gabon
 *Guatemala
 Hungary
 Iraq
 Iran
 *Ivory Coast
 *Jamaica
 *Jordan
 *Kiribati
 *Korea (North)
 *Korea (South)
 *Lebanon
 *Malaysia
 Malta
 *Mauritius
 *Mexico
 *Mongolia
 *Morocco
 Namibia
 Nauru
 Netherlands
 (b) Overseas zone:
 - Dutch West Indies
 *Nigeria
 Oman

*Countries now in Category II that were in Category III
 before July 6, 1982.

Panama
 *Papua-New Guinea
 *Paraguay
 *Peru
 Poland
 Portugal
 (a) European zone:
 - Azores
 - Madeira
 *(b) Overseas zone:
 - Macao
 Romania
 *Seychelles (without Diego Garcia)
 Singapore
 South Africa
 St. Lucia
 Surinam
 *Syria
 *Taiwan
 Trinidad and Tobago
 *Tunisia
 *Turkey
 Trust Territory of the Pacific Islands (US)
 United Kingdom
 (b) Overseas zone:
 1. Central America and the Caribbean
 *-Montserrat
 4. Asia
 - Hong Kong
 *Uruguay
 Venezuela
 West Indian Associated States:
 *- St. Kitts-Nevis
 Yugoslavia

*Countries now in Category II that were in Category III
 before July 6, 1982.

Category III Countries

Afghanistan
Angola
Bangladesh
Benin (ex Dahomey)
Bhutan
Bolivia
Burma
Burundi
Cameroon
Canton and Enderbury (United Kingdom/United States)
Cape Verde Islands
Central African Republican
Chad
China
Comoro Islands (Anjouan, Grande Comore, Moheli)
Congo
Djibouti
Dominica
Egypt
El Salvador
Ethiopia
Gambia
Ghana
Grenada
Guinea
Guinea-Bissau
Guinea-Equatorial
Guyana
Haiti
Honduras
India
Indonesia
Kampuchea (ex Cambodia)
Kenya
Laos
Lesotho
Liberia
Madagascar
Malawi
Maldives
Mali
Mauritania
Mozambique
Nepal
New Hebrides (France/United Kingdom)
Nicaragua
Niger

Pakistan
 Philippines
 Rwanda
 Sao Tome and Principe
 Senegal
 Sierra Leone
 Solomon Islands
 Somalia
 Sri Lanka
 St. Vincent and the Grenadines
 Sudan
 Swaziland (Ngwane)
 Tanzania
 Thailand
 Togo
 Tonga
 Tuvalu (ex Ellice)
 Uganda
 United Kingdom

(b) Overseas zone:

1. Central America and the Caribbean
 - Anguilla
 - Cayman Islands
 - Turks and Caicos
2. South America:
 - Falklands
3. Africa:
 - St. Helena (and dependencies)
4. Asia:
 - British Territory of the Indian Ocean
5. Oceania:
 - Central and Southern Line
 - Gilbert
 - Pitcairn
 - Solomon

Upper Volta
 Vanuatu
 Vietnam
 West Indian Associated States:
 - Anguilla
 Western Samoa
 Yemen, Arab Republic (Sanaa)
 Yemen, Peoples Democratic Republic
 Zaire
 Zambia
 Zimbabwe

In addition, reclassification and rate increases since last year have raised the minimum interest rates charged to the Soviet Union by 4 percentage points to 12.15 percent for medium-term credits and 12.4 percent for long-term credits. These changes correct an anomaly which had allowed the Soviet Union, an industrialized country, to receive the more preferential rates available to advanced developing countries. Czechoslovakia and the German Democratic Republic also graduated into Category I. Although the U.S. Eximbank does not offer credits to these countries, the new Arrangement reduces the trade subsidies offered to the Soviet Union by the OECD countries.

Substantial overall reductions in U.S. and foreign export credit subsidies have been achieved with the minimum rate increases and country reclassification agreed upon in November 1981 and June 1982. The subsidy element of Eximbank lending, whether measured in terms of its cost of money or compared to commercial lending rates, has decreased from a peak of 495-588 basis points in the third quarter of 1981 to its current level of 160-268 basis points (Table 1). If interest rates continue to fall through 1983, the subsidy element in Eximbank lending may disappear altogether.

The decrease in foreign export credit subsidies is most dramatic in France (from 870-973 basis points to the current level of 500-606 basis points) and the United Kingdom (from 736932 basis points to a current level of 354-400 basis points). The subsidy element for Japan and the Federal Republic of Germany has been virtually eliminated. When the phase-in process is completed, the subsidy element will decrease at least an additional 50 basis points, while falling interest rates would further reduce the subsidy element. Overall, Arrangement improvements since autumn of 1981 have cut export credit subsidies in half, even if current market interest rates remain unchanged.

Subsidized credits for exports into the U.S. market have become an irritant in economic relations with other Arrangement Participants. Although the European Community could not agree to ban export credit subsidies among Participants, the EC (and other Participants) did acquiesce to significant increases in Category I rates and a pledge not to derogate in interest rate or repayment term from the Arrangement after October 15, 1982. If interest rates hold or decrease, the new Category I rates (12.15 percent for medium-term credits and 12.40 percent for long-term credits) could mitigate the impact of subsidized foreign export credits into the United States.

The revisions introduce a small degree of automaticity into the Arrangement. Although the basic matrix rates can still only be changed through negotiation, the system for countries with long-term market interest rates below matrix rates adjusts automatically. Since the blended rate must exceed the long-term commercial prime rate by at least 30 basis points, fluctuations in the long-term prime rate will be immediately reflected in officially-supported export credits.

The new Arrangement provisions have significantly increased the competitiveness of the Eximbank without further undermining its financial position. Prior to revisions in the Arrangement in November 1981, the negative spread between Eximbank's lending rate and cost of money amounted to 495 basis points at the same time as it offered credits 284 basis points above Arrangement matrix interest rates. Improvements in the Arrangement have enabled Eximbank to narrow the negative spread and better match foreign export credit terms.

The negative spread between Eximbank's lending rate and its cost of money has been reduced to 70 basis points since November 1981. Shortly after the new Arrangement entered into force on June 30, 1982, Eximbank also adopted a three-tiered interest rate structure for long-term credits: 12.4 percent for relatively rich countries, 12.0 percent for intermediate countries, and 11.0 percent for relatively poor countries. The spread between Eximbank interest rates and matrix interest rates has been substantially narrowed to 100 basis points for Category III countries, 65 basis points for Category II countries, and equality for Category I countries. The weighted average difference will only amount to 60 basis points as of January 1, 1983. Taking into account additional credit fees, the differences between the interest rates charged by Eximbank and other export credit agencies are negligible.

In addition, Eximbank and Treasury reached an understanding with the Japanese Ministry of Finance which enables the Eximbank to guarantee yen credits at the same rate as the Japanese program supports its exporters. Hence, Eximbank is able to offer guarantees in yen, Deutsch marks, and Swiss francs, which enhances Eximbank's competitiveness with low-interest-rate countries.

The ban on mixed credits with a grant element less than 20 percent will help control the most egregious form of predatory financing. Since mixed credits with a grant element greater than 25 percent are considered official development assistance (and thus beyond the purview of the Arrangement),

mixed credits with a grant element between 20 and 25 percent remain the primary concern in export credit competition. Under the Arrangement, Participants are required to notify such mixed credits in advance.

Nevertheless, the achievements of the past year still fall short of our central objective to eliminate export credit subsidies:

-- Matrix rates, with the exception of yen rates, remain below market rates, although the spread has been narrowed considerably.

-- Differentiation under the Arrangement is limited to a distinction between countries with commercial rates below matrix rates and countries with commercial rates above matrix rates; complete differentiation by currency is not yet a reality.

-- Changes in Arrangement rates, except for countries with low interest rates, must be negotiated rather than automatically adjusted.

-- The OECD countries have not yet agreed to a ban on export credit subsidies among relatively rich countries.

In the coming year, the Administration will press our OECD partners to accept our four-point program: (1) higher minimum interest rates; (2) differentiation by currency; (3) automatic adjustment of interest rates; and (4) the ban on export credit subsidies among relatively rich countries. At the regularly scheduled meeting in October, 1982, the United States will emphasize the need to ban export credit subsidies among relatively rich countries. If the trend is not reversed, export credit subsidies into industrialized country markets will increasingly strain the international trading system. In October, we will also seek assurances from the European Community that the ban on derogations, which goes into effect on October 15, will not disadvantage the United States during the phase-in of new Category II countries, scheduled to be completed by January 1, 1983.

The prospects for further improvements in the near term would be greatly enhanced if commercial interest rates continue to fall. First, it will be easier for Participants to ban export credit subsidies for intra-OECD trade as commercial interest rates approach Category I rates. Secondly, the pressures for matrix rates differentiated by currency increase as

the number of low-interest-rate countries increases. Thirdly, Participants may be more enthusiastic about automatic adjustment mechanisms if they attempt to negotiate rate decreases. The spread between the Uniform Moving Matrix (UMM) rate (a weighted interest rate based on interest rates in major currencies) and weighted Arrangement rates has dropped from a peak of 549 basis points to its current level of 102 basis points. The current UMM rate -- 11.95 percent -- is already below Category I rates. If commercial interest rates drop further, the UMM interest rate may even drop below the weighted Arrangement rate, when the phase-in period ends on January 1, 1983. Finally, falling commercial rates, when viewed in the context of the GATT Subsidies Code, would greatly facilitate U.S. efforts to eliminate export credit subsidies.

The Administration welcomed the decision of other Participants to accept improvements in the Arrangement. At a time when many countries face domestic economic troubles and a more competitive international trading system, it was especially encouraging that the major exporting countries were able to retain their focus on the long-term goal of reducing trade-distorting export credit subsidies. Although the Arrangement was not improved as much as desired, it still represents a surprising achievement in light of the economic pressures in many countries to adopt mercantilist policies.

III. Large Transport Aircraft Common Line

The Arrangement does not cover large transport aircraft. During the late 1970's through 1980, Eximbank financed aircraft sales aggressively, matching European competition. From 1978 until 1981, Eximbank financing of large commercial jet aircraft grew to approximately one-half of its annual direct credit authorizations. This approach did not signal U.S. adoption of heavily subsidized financing as a long-term policy, but instead was intended to demonstrate the wastefulness of official export credit competition and to pressure the Europeans to the negotiating table.

After over a year of negotiations, the Governments of the Airbus financing partners (France, Germany, and the United Kingdom) and the U.S. Government agreed in the fall of 1981, to limit official financing support for large transport aircraft sales.

The status of the Common Line remains an informal understanding among the four countries. It is not linked to the Arrangement, nor to efforts to negotiate a general aviation and commuter aircraft common line.

A discussion of the key provisions of the Common Line follows:

Interest Rates. The minimum interest rate is set at 12 percent for financing in U.S. dollars, at 11.5 percent for French francs (FF), and at 9.5 percent for Deutsche marks.

At the time the Common Line was negotiated, the British were not interested in offering sterling financing; therefore, a minimum sterling rate was not set. The DM rate was a market rate of interest. We agreed to a FF interest rate below the dollar rate, since foreign exchange risk insurance and other fees associated with France's export programs are added to the 11.5 percent FF rate. The effective rate, therefore, would be as high or higher than the dollar rate.

Moreover, the DM and FF rates were not a major issue, given that almost all wide-bodied, commercial jet aircraft sales are financed with dollar credits, and that the dollar rate at 12 percent was satisfactory. It was envisioned that these rates would be revised and brought more into line with market rates in subsequent sessions.

Degree of Permitted Official Financing (Maximum Cover). Maximum cover is set at 42.5 percent for loans where the export credit agency takes the later repayments (as typical in Eximbank's system) and at 62.5 percent when the export credit agency and the private lender are repaid pari passu throughout the life of the loan (as typical in the European systems). The two ceilings were established to bridge the differences in the two systems. Either party may use either approach, subject to the ceiling applicable to that pattern.

In addition, export credit agencies are permitted to guarantee the private bank financing so long as the total (official direct credit and guarantee) does not exceed 85 percent of the total cost.

Repayment Term. The maximum term for loans is set at ten years and for leases at twelve years, the same limits as established in the 1975 OECD Aircraft Standstill.

Home Markets. The Common Line governs sales only to third markets, i.e., markets other than France, Germany, the United Kingdom, and the United States. This provision was included essentially to prevent amendment of U.S. laws protecting the U.S. manufacturing industry against subsidized financing into the U.S. market.

Spare Engines and Spare Parts. Maximum allowable financing for spare engines and spare parts is determined by the number of each aircraft type being acquired, or already on firm order or operated on the following basis: for the first five aircraft, spare engines and spare parts up to a maximum of 15 percent of the aircraft price (airframe and installed engines) may be financed; for the sixth and subsequent aircraft, spares up to 10 percent of the aircraft price may be financed.

Cash Payment. A 15 percent cash payment is required for both sales and leases. However, with prior notification a 10 percent cash payment is permitted. (The 1975 OECD Standard still requires only a 10 percent cash payment.)

Aircraft Covered by the Common Line. All existing and prospectively competing large commercial aircraft produced by the four countries are covered by this Common Line (e.g., the Airbus A-300, A-310, A-320, the Boeing 727, B-737, B-747, B-757, B-767, the McDonnell-Douglas DC-9, DC-10, and the Lockheed L-1011).

Review. The Common Line will be reviewed every six months or at the request of any one of the four participating governments.

The Common Line reduced the cost of export credit subsidies made available for the sale of large commercial jet aircraft, primarily through the floor on interest rates and the ceilings on cover. The understanding also explicitly recognizes differentiation by currency. Before this agreement, typical financings were at 85 percent cover and 9.25 percent interest or less. Thus the 42.5/62.5 percent cover at 12 percent interest was a marked improvement. Nonetheless, the Common Line fails to provide for automatic adjustment of interest rates and still allows for substantial export credit subsidies.

In an effort to eliminate export credit subsidies altogether, the U.S. Government proposed to the Europeans in early 1981 that official export credit support be limited to pure cover, i.e., credit guarantees only of commercial loans. The result would be: (1) an elimination of the direct interest rate subsidy, and (2) a lengthening of the repayment term to roughly 15 years, which is more typical for financing large commercial aircraft.

The Europeans felt they could not agree last year to this proposal, contending that they would be disadvantaged as they had limited access to fixed rate funding at terms in excess of ten years. The United States, therefore, agreed to postpone any pure cover (market rate/market term) offers until September 1982, to allow the Europeans time to study their access to long-term funds in the U.S. and Euro-capital markets or to give us just cause why the United States should not offer a pure cover option. Fulfilling an obligation of the Common Line, the U.S. Government prepared a study for the Europeans on the U.S. capital market last fall. In addition, the Treasury Department organized a financial seminar in New York City this spring where the Europeans were addressed by leading experts from U.S. investment and commercial banks as well as insurance companies.

The next meeting on the Common Line is scheduled for late September 1982. The Europeans are expected to present their position on the U.S. proposal for a pure cover system.

IV. Nuclear Power Plant Negotiations

The nuclear power sector is another major export sector exempted from Arrangement coverage. Thus far, the Participants have been unable to agree on appropriate terms for financing nuclear power plants, possibly due to the extremely high costs and the long construction periods of such plants. Export credit agencies have offered repayment terms as long as 20 years, and interest rates as low as 7.6 percent. In some years, nuclear power financing accounted for as much as 25 percent of Eximbank's budget authority. Because of the high cost of subsidizing export credits for the nuclear sector, the Administration has attached a high priority to negotiating specific guidelines for the financing of nuclear plants.

The effort began with discussions in February, 1982, with some of the other major nuclear power plant exporting countries. The purpose of the discussions was to sound out their willingness to participate and to suggest an approach to negotiations. These early soundings indicated that a sectoral agreement on nuclear power plant financing would be feasible.

The issue was also discussed at the plenary round of export credit negotiations in March, 1982. At that time, however, the negotiating agenda for the spring round of Arrangement talks was already so full that the nuclear power talks have had to be postponed until the fall, 1982 meeting.

The Administration envisions an agreement which initially covers the "Nuclear Steam Supply System", the core of a nuclear power plant. At some later date it might be enlarged to cover all components of a nuclear plant; however, the non-nuclear elements such as turbine generators are already covered by the Arrangement.

The United States has suggested rates at or near market levels: repayment terms should be 20 years and interest rates should be determined by reference to the market yield on a government bond of the same maturity, and denominated in the same currency, as the export credit. Maximum cover should be 80 percent of the purchase price, i.e., the buyer should be asked to pay at least 20 percent cash.

The U.S. delegation has argued that fuel should not be financed at all. If fuel is financed, it should be limited to initial fuel cores but should not include reloads. We have proposed that local costs and pre-commissioning interest charges not be financed. We also recommend no financing for fuel enrichment or reprocessing services.

While a number of other delegations expressed initial agreement with many of our proposals, some of the major countries disagreed on the relatively long repayment terms and high interest rates proposed. It is likely that the negotiation will involve a trade-off, between the United States and some of its European negotiating partners, on repayment term and interest rate.

The U.S. delegation already has held consultations on a number of occasions with representatives of the U.S. nuclear power industry. Their suggestions on the terms of the negotiation, and on specific points such as elements of a plant to be covered, etc., have been and will continue to be factored into the U.S. negotiating position.

V. Small- and Medium-Sized Aircraft Sector Agreement.

The demand for commuter services and for commuter aircraft represents perhaps the greatest growth potential in the present air transport market. Most foreign manufacturers anticipate a worldwide market totaling 1,000 aircraft in the 20- to 40-seat range through 1990. We anticipate the stiffest competition for sales will occur in the U.S. market.

This past May the Arrangement Participants began negotiating an aircraft sector agreement to limit official financing subsidies for exports of commuter and general aviation aircraft. This agreement, together with the large aircraft Common Line, will supersede the outdated 1975 OECD Aircraft Standstill, which currently governs the level of official export financing support.

There are two major problems with the Standstill. First, the classification of aircraft for the purpose of setting maximum repayment terms is obsolete. Specific models were grouped into three categories, determining a maximum repayment term of five, seven, or ten years. There is no provision for classifying future models. The second drawback of the Standstill is that it does not set interest rate minimums. This omission allows significant export credit subsidies for general aviation and commercial aircraft.

The talks in May were based on a U.S. Government discussion paper outlining the key points to be negotiated. This initial meeting served as an introduction for the Participants to the key issues in the small- and medium-sized aircraft area. Most Participants were not prepared to negotiate at that time.

The U.S. paper suggested that (1) official financial support be limited to guarantees of commercial loans covering up to 65 percent of the export value, and (2) classification of aircraft (for determining maximum repayment terms) be along generic lines, for example:

Category I: 10 years

Medium-sized jet turbine or turbofan commercial transport aircraft, with between 70 and 120 seats, or cargo aircraft of comparable size and weight.

Category II: 7 years

All other jet turbine-powered aircraft and all multi-engine turboprop aircraft, and all multi-engine turbine-powered helicopters.

Category III: 5 years

Other general aviation aircraft, including piston engine aircraft, single-engine turboprop, and single-engine helicopters.

We expect other Participants to develop specific positions for the next negotiating session, to be held in the fall. This next session will likely focus on three key issues: (1) Classification Criteria. While the Participants agreed to adopt a generic classification system, the classification criterion still need to be negotiated. (2) Degree of Official Support. Other Participants believe that direct official financing should continue to be permitted. (3) Competition from Non-Member Countries. The non-OECD countries that are competitive in this field (e.g., Brazil, Israel, and Indonesia) should be associated with the Participants' efforts to establish rules for this sector. How and when to involve non-OECD countries has yet to be negotiated.

VI. EXPORT CREDIT POLICY AND EXIMBANK LEGISLATION

Proposed Legislation. Congress is currently considering three bills, the so-called "war chest" bills, which establish special funds to enhance Eximbank's competitiveness: a bill submitted in the House (H.R. 3228) and two bills in the Senate (S. 868 and S. 2600). The primary purpose of these bills is to establish \$1-2 billion special funds to counter extraordinary export credit subsidies offered by foreign governments and thereby encourage negotiated reductions in export credit subsidies. OMB informed the Congress on March 25, 1982, that the Administration did not support passage of a "War Chest" bill at that time because (a) the bills could have significant budgetary cost, (b) targeted challenges to foreign export credits could sour the atmosphere for improvements in the Export Credit Arrangements, and (c) the Eximbank already had ample budgetary authority and program flexibility to meet foreign official competition.

In light of our negotiating success in the last 20 months, the Administration does not believe the proposals being considered by Congress are now warranted.

First, recently negotiated reductions in international export credit subsidies through the OECD Arrangement on Export Credits obviate the need for a special fund. The differences in Eximbank's lending rates and those of other export credit agencies, especially when special fees and charges are added, are now negligible. In addition, the new Arrangement curtails the use of "extraordinary financing" by banning mixed credits with a grant element less than 20 percent.

Secondly, the proposed bills could have a significant budgetary cost and would benefit only certain sectors of the economy when many other sectors are expected to accept significant cuts in government programs. S. 2600 and H.R. 3228 establish fixed interest rate support programs (FIRSP) for the private sector, which would be perceived as subsidies for commercial banks and result in uncontrollable and unpredictable future outlays for interest rate subsidies. The program would be unnecessarily expensive because it would subsidize commercial rates rather than Eximbank's cost of money through Treasury borrowings.

Thirdly, the Administration has already requested \$3.8 billion for the Eximbank's direct lending program and \$8.0 billion for the guarantee and insurance program for FY 93. Thus, the Eximbank already has ample budgetary authority and program flexibility at this time to meet specific challenges from foreign official competitors.

Fourth, there is no need to supplement agricultural credits, as proposed in S.2600, because the CCC guarantee program of \$2.8 billion is adequate and operating successfully. In addition, the bill would complicate the administration of agricultural programs, by creating competing agricultural credit instruments.

Fifth, exempting Eximbank receipts and disbursements from inclusion in the Federal Budget, as envisioned in S.2600, would effectively remove Eximbank activities from the full discipline of the budget process and weaken fiscal management and control by the Congress and the Executive Branch. The budget process underscores the implicit trade-offs necessary

among government programs. In order for the Congress to decide on budget totals and to make priority allocations among functions under the budget process, it must have complete information on the total (i.e., gross) levels of federal activities.

Finally, our experience of the last four years has shown that the "War Chest" approach does not work by itself to achieve our export credit objectives. Aggressive Eximbank lending since 1977, with expansion of its credit program and use of its capital reserves as a "War Chest," did not by itself significantly reform foreign export credit practices.

Conclusion

The Administration continues to attach a high priority to the elimination of export credit subsidies. The next stage is to negotiate sector agreements to reduce the export credit subsidies available for nuclear power plants and small- and medium-sized aircraft and to improve the Common Line for commercial jet aircraft. Throughout the coming year, the Administration will lay the foundation for further improvements in the OECD Export Credit Arrangement, based on the following four points: (1) market minimum interest rates; (2) differentiation in interest rates by currency; (3) automatic adjustment of interest rates; and (4) a ban on export credit subsidies which support trade between industrialized (e.g. OECD) countries. A special fund for the Eximbank will not materially improve the chances of achieving these objectives at this time, but instead could damage these efforts by provoking an expansion in foreign export credit subsidies. As a result, the Administration believes the proposed bills are now unnecessary.

Senator HEINZ. Mr. Leland, thank you very much.

First, let me ask, Mr. Olmer, how much in the way of lost sales would you say did result, from your point of view as one of our highest ranking officials of the Department of Commerce as Under Secretary for International Trade—how much in the way of sales do you think we have lost in fiscal year 1982 by virtue, for whatever reasons, of the merits of the particular terms and coverage, et cetra offered by the Eximbank—how much have we lost in terms of business overseas both through the loss of sales or through non-U.S. based sourcing?

LOSSES IN EXCESS OF \$1 BILLION

Mr. OLMER. I think it's well in excess of a billion dollars. I'd like to point out that it's extremely difficult to document the examples with the kind of facts that will satisfy some questions because much of the evidence is of necessity anecdotal. Some manufacturers are going to be completely forthcoming and will admit that they don't know whether or not X foreign country interceded at the last minute when clearly on the merits, in terms of sale price and quality and so on, the American supplier was preferred. I have to discount some of the anecdote, but, from my own experience, I also have to believe a great deal of it. On the basis of my own prior experience and on the basis of discussions with a number of manufacturers, I'd have to give an estimate of well over one billion dollars.

Senator HEINZ. Could it be—not is it, but could it be twice that? Could it be \$2 billion?

Mr. OLMER. I don't think so.

Senator HEINZ. On what do you base that?

Mr. OLMER. Well, in the course of our efforts to determine the priority our private sector accords to competitive Eximbank financing, we have held many, many discussions with medium- and large-sized corporations and their representatives, and I'd say that we have an aggregate list which is pretty much the worst case, and that worst case scenario would result in something under a billion and a quarter dollars. This is still a lot of money in a given short period of time, but again oftentimes you're left in the position of accepting on faith or your own suspicions that it is more likely than not that the Japanese Government or the French Government, on occasion other governments, have interceded with better terms—or as it's called, blended terms—through grant aid and so on which are masked somehow, and that the U.S. bidder has been upset.

Senator HEINZ. In my home State of Pennsylvania, we have such Eximbank users as Westinghouse, General Electric, in the area of locomotives in particular, Boeing Vertol in Delaware County, eastern Pennsylvania. Westinghouse of course is in the Pittsburgh area, although not exclusively there. They have a large plant in Philadelphia. Dravo headquartered in Pittsburgh, and there are numerous subcontractors who are huge suppliers of construction worldwide.

We have put, if you will, the tip of the iceberg on the record with respect to those companies. Would you say it is accurate or inaccurate?

rate that each of those companies or subcontractors have lost sales in the last year because of noncompetitive financing?

Mr. OLMER. Well, certainly some of them have. I don't know about all of them, but I think it is a fair assumption—in fact, it's more than an assumption—that they have lost sales as a result of the unavailability of competitive financing.

What we mean by that sometimes is that strings are being pulled that we don't see. It may not be the record. The record can't be accepted for its face value.

Senator HEINZ. If in fact—and this is hard to estimate, but if in fact that list that I've read you could have amounted to a half a billion dollars in sales, that would mean 15,000 or 20,000 jobs lost in Pennsylvania. If it was as much as a billion—we've got to remember that the Taipower project that's been postponed is a \$2 billion project involving Pennsylvania companies such as Combustion Engineering and Westinghouse. That, in itself, is close to 50,000 jobs; 50,000 jobs is 10 percent of the entire unemployment in the State of Pennsylvania right now. We could bring the unemployment rate down in Pennsylvania by a full percentage point—more than a full percentage point—if, in my judgment, we got adequate competitive financing from the Eximbank.

EXIMBANK SUPPORT COMPARISON

Let me ask you this. How does Eximbank support of our companies that export compare to other countries' support of their businesses?

Mr. OLMER. I have two kinds of responses to that. In the first place, I'd like to say that from my own experience as a businessman before coming to this job, I found the support provided by the Eximbank at the loan officer level to be simply outstanding. They were responsive and were part of the team. They made themselves part of the exporters' strategy and they were very helpful without fail.

The second part of my response goes to the comparative analysis of our major competitors and what they do to promote exports and in that respect we come out somewhere around fifth out of five.

Senator HEINZ. I'm glad you didn't study 10 or 20.

Mr. OLMER. Well, Mr. Chairman, my favorite disclaimer is that I'm not an economist; I'm an honest man. So you'll have to take my numbers with a grain of salt.

Senator HEINZ. We're willing to believe 50 even 100 percent of them.

Mr. OLMER. Japan spends about 10 times what the United States does in promoting exports. The United Kingdom, nearly the same, about eight times. France spends about five times, and the Federal Republic of Germany spends about four times as much.

Our calculations are that roughly 3 percent of Government expenditures have gone to promotion of export sales, roughly \$18 billion.

Senator HEINZ. Three percent, \$18 billion, in comparison we are—

Mr. OLMER. We're 5 to 10 times less in the business of promoting exports.

Senator HEINZ. Is this the reason the administration initiated a study of other means of financing exports in addition to the Eximbank?

Mr. OLMER. Well, there are a variety of reasons for it. That clearly is one. Another is that we began to see and want to give encouragement to private sector initiatives to develop alternatives or supplements to the Federal financing programs and that activity is taking place in a number of different States in the Union. There is a second and I think powerful reason for wanting to do that, and we look forward to sharing the results of that study with you within I hope a couple of months.

Senator HEINZ. Mr. Olmer, thank you. I have some questions for Marc Leland.

I note that in your statement when you are discussing the extent to which you've been able to get a reduction in the subsidies by our trading competitors you mention the French and the United Kingdom, and yet you also point out that they are still, in the case of the French, at a 500 to 600 basis point level of subsidy, 6 percentage points. That's a staggering subsidy. In the case of the United Kingdom, they're at 350 to 400 basis points remaining subsidy.

I'm not being critical of what you've tried to do, but let's face it, if we walk around saying that we really solved all the problems—I'm not saying you do, but if anybody gets the impression we've solved all the problems, they're going to be wrong, because two major countries—it happens to be two countries, of course, that in aircraft competition are absolutely head to head with us in their Airbus consortium, and also from the standpoint of many nonaircraft, nonnuclear are head to head with us, the French in particular being egregious. Do the French derogate in other ways?

Mr. LELAND. In the agreement after October 15, 1982, there won't be derogations on repayment term or interest rates. The elements that Lionel refers to, namely, the use of government pressure, particularly when you've got nationalized industries, has nothing to do with the export credit issue. You can lower the price if you want and take a loss.

Senator HEINZ. Mixed credits?

Mr. LELAND. Mixed credits, to which Lionel referred. There are other ways to gain a unilateral advantage, and I think they have to be watched closely.

When it comes to the credit area, the French and British obviously have higher interest rates. When they subsidize down to the matrix rates, there will be a higher subsidy level. Of course, the competition, interestingly enough, is fiercer from those that manage to have low interest rates, such as the Germans and the Japanese. They don't subsidize at all, but instead offer guarantees or direct credits out or above market interest rates.

I think one of the most meaningful things that we got out of the negotiations was the fact that the Japanese agreed—and I will believe it more as I see it happen—that our exporters would have access to yen financing, either with an Eximbank guarantee or on their own. They could then get an interest rate 8.6 percent which is the Japanese long-term rate.

Although the subsidy element itself is one element to look at, the overall support for the exports in the end may make more differ-

ence than the subsidy element, particularly now as market rates converge on the consensus rate.

ARRANGEMENT INTEREST RATES

Senator HEINZ. Let me ask you about the arrangement we've got. If our interest rates should fall to the point where they're dramatically below the arrangement, let's say all our interest rates are 8 percent or less and the arrangement is in the case of OECD countries 11 or 12—

Mr. LELAND. 12.4 for the category 1 countries.

Senator HEINZ. Will we be compelled to restrict Eximbank financing?

Mr. LELAND. It's not a question of restricting it. If we fall into the category of a low interest rate country, we would have two options. If we were simply providing pure cover as Germany does—that is, the commercial bank offers the credit and the Eximbank gives a guarantee—then the interest rate will be the market rate. If you provide a direct credit from the Eximbank, which is like the Japanese system, then you're subject to charging a slight premium above the market interest rate.

Senator HEINZ. But so everybody is clear, should our interest rates fall, a guarantee would have the effect of making possible these transactions without the Eximbank having to resort to direct credit authority; is that correct?

Mr. LELAND. That's correct.

Senator HEINZ. What do we do about the fact that the arrangement legalizes for some of these countries to the tune of 6 percentage points in the case of France—the fact that legalizes the arrangement subsidy?

Mr. LELAND. Well, the point is, we are still trying to reach a differentiated rate system whereby you can cover whatever your interest rate is. Since that is the objective, we basically do not want to legalize a large subsidy element.

Senator HEINZ. How are we going to keep the pressure on all of these people?

Mr. LELAND. First of all, by the direct pressure of meeting the competition with Eximbank involvement as we do now. Next, by negotiations on a broad range of issues. It may not only be directly related to credit. All these things involve give and take. The issue of export subsidies goes well beyond just the export credit area. In general, it's a negotiation; and there may be trade-offs in the overall effort to reduce subsidies.

Senator HEINZ. Is it a goal of our negotiations to tie arrangement interest rates to that which will always vary; namely, the cost of funds?

Mr. LELAND. Yes; market rate.

Senator HEINZ. Is that, although it's an objective, an attainable objective? Do you anticipate that it is realistically attainable?

Mr. LELAND. I think it is. You could have asked last year whether our current achievements were realistically attainable; a lot depends upon leverage on other issues. In the arrangement situation, the Germans, quite candidly, are equally supportive of our goal to reduce export credit subsidies. They are part of the European Com-

munity and they have other issues which affect other members of the Community who are not so supportive. Of course, a lot depends upon how the economies of certain countries are operating. But I think basically you could see a point where everybody would finally go for differentiated rates.

Senator HEINZ. Mr. Olmer.

Mr. OLMER. I'd just like to add a footnote. I agree with Mr. Leland that it is an attainable goal and certainly a desirable goal and we ought to and will work very hard for it. But one of the things we do have to be cautious about is that we don't drive our competitors underground. We worked for a generation to eliminate tariffs and when that process worked its way out we found the creation of more subtle forms of barriers to free and open trade.

We clearly need to be a leader in this process. It won't happen without the good works of the Treasury Department and the Eximbank and so on and we need to work toward it, but we need to be sensitive at the same time to the subtleties of our competition in the real world.

Senator HEINZ. Are you saying that the tariff cutting of 1978 in the Tokyo round which resulted in a comprehensive set of trade agreements, including antidumping laws and countervailing duty laws, all of which were meant to protect the world against unfair trading practices, have been a good deal less successful than anticipated because of the corresponding growth and in some cases the more than corresponding growth of nontariff barriers?

Mr. OLMER. I just think it has created a whole new complex of problems. I think it was a wise thing to do and a good thing.

Senator HEINZ. I take it the answer is more or less yes.

Mr. OLMER. Well, it was a good thing to do and I wouldn't have changed it for a minute. Perhaps I would have argued at that time, had I been here, for more sensitivity to the sophistication of some of our trading partners, and I think we have to be alert to that now, having learned that lesson, to continue to press on the removal of various kinds of nontariff barriers and as we negotiate a way on subsidies on credit arrangements to be alert to ways in which our competition might use other ways to avoid that.

PROBLEMS IN THE INTERNATIONAL TRADING AREA

Mr. LELAND. I think what we both are saying, Mr. Chairman, is the fact that there's a multitude of problems in the international trading area. This particular consensus agreement has been moving along fairly well, but you can't lose sight of all kinds of other problems that may arise—methods of favoring your own companies or subsidizing them which would have the same result as a credit subsidy. We've got to be aware of all of these and the methods to meet them.

Senator HEINZ. Now we've been discussing international negotiations on the ending of subsidized official export credit financing. We all know that negotiations in these areas are intimately linked to all kinds of other negotiations that are going on.

Would you say—and this is with respect to one particular set of negotiations that the Commerce Department has been involved in, namely, those involving steel—the antidumping and countervailing

duty cases. In the discussions, Mr. Olmer, that you and Secretary Baldrige have had with the Europeans on their attempts to settle the steel cases, have the Europeans ever said that they felt the United States was being unreasonable in pursuing our countervailing duty and antidumping law cases to their conclusion?

Mr. OLMER. They have clearly reserved on the question of whether our findings that certain subsidies are countervailing are valid. As you know, the countervailing duty investigations will be completed when and if the International Trade Commission renders a final injury determination in early October. At that point, I think it quite likely that we would get challenged by the European Community on behalf of its member states as to whether our findings were in accord with our international obligations under GATT.

So I guess the short answer is, yes, they have said or indicated that they do not agree with our determinations.

Senator HEINZ. Do you believe that this country's insistence—at least very strong initially and only somewhat moderated to date—on the extraterritorial application of U.S. law with respect to U.S. subsidiaries in France and elsewhere regarding supplies to the Yamal pipeline have upset the Europeans to the extent where they are more difficult to deal with on the steel cases?

Mr. OLMER. I have detected a certain degree of discomfort and disagreement with our policy with respect to those sanctions, but I have not seen any indication of a spillover effect in any other area to this point.

Senator HEINZ. Has the Commerce Department in any way, shape or form, either directly or indirectly, been asked by some other agency or department of the Federal Government or by anybody representing the White House to moderate the findings or the determinations or the elements of subsidy, the elements of dumping or any of the other elements of the steel cases involving steel?

Mr. OLMER. No; unequivocally no.

Senator HEINZ. There have been in fact no conversations on that issue initiated by others other than to request just the information?

Mr. OLMER. There are conversations all the time. We have an obligation to inform other parts of the executive branch as to the process of both the investigations and as to the process of legitimate negotiations hopefully leading to a settlement prior to final determinations. In that process we've taken the initiative to offer information and other times we've been requested to provide it. But at no time ever has there been a suggestion that we should go light in the tradeoff.

Senator HEINZ. Well, it's significant you say that and I'm sure you're as aware as I am that there have been allegations.

Mr. OLMER. Sure.

Senator HEINZ. But you and the Commerce Department have been under tremendous pressure to back off on these European steel cases. What you have said today is that you categorically deny that?

Mr. OLMER. Absolutely. I don't deny feeling somewhat under pressure, but perhaps for different reasons.

Senator HEINZ. You feel under pressure?

Mr. OLMER. Oh, yes.

Senator HEINZ. To moderate?

Mr. OLMER. No, I'm not even anxious that it be moderated. I rather think it goes with the task. It's a very complicated undertaking and we believe we're doing the right thing, that we'll do a job that will withstand any challenge by the domestic industry which may be unsatisfied with our findings, as well as the European Community if it is unsatisfied with our findings.

Senator HEINZ. Mr. Olmer and Mr. Leland, thank you very much.

Our next witnesses include Mr. William Trammel, Mr. Robert Best, Mr. Harold Weaver, and Ms. Virginia Foote, and another witness for the introduction of whom I shall yield to Senator Metz-enbaum.

STATEMENT OF HOWARD M. METZENBAUM, U.S. SENATOR FROM THE STATE OF OHIO

Senator METZENBAUM. I thank the chairman and I appreciate you chairing these hearings because I think you're dealing with one of the very heart throbs facing small business in this country today. The witness I'm about to introduce, Mr. Evan Werling, is an absolute perfect example of the problems some of the policies of the Eximbank are presently causing them.

SMALL BUSINESS SUFFERING HUGE LOSSES

Now, Mr. Werling is from Piqua, Ohio. It's a small community in our State. He's vice president in charge of finance. The company for whom he acts is known as the French Oil Mill Machinery Co. The "French" does not refer in any way to its national relationships but rather to a family name. It's an 82-year-old Ohio company employing about 320 people. It manufactures equipment which extracts oil from oil-bearing seeds. In so many ways it's a beautiful example of a small technologically advanced American manufacturing firm doing a very good job. Unfortunately, but the practices of the Eximbank, which are really quite discriminatory, have hurt this company badly because more than 50 percent of its business is overseas. It is not atypical; it is rather typical of other small companies attempting to operate in the international market but which are unable to buy international money on the same basis as some of the larger corporations also operating in the international arena.

This company actually lost \$15 million of business last year because it could not provide the right kind of financing. It's now gone from a company that was making money to a company that at the best is holding its own and at the worst is probably losing some money at the present time.

Frankly, the Eximbank does not give adequate consideration to small business operations such as French Oil. Worse than that, however, its rates are prohibitively high, making it impossible for a small company to compete with a larger firm in international markets. Furthermore, other companies located overseas are getting far more assistance from their own governments.

I hope that you will hear Mr. Werling. I think he can state his case far better than I can, but we are very proud of this small com-

pany in Ohio and we want to keep it there for a long time and the Eximbank is very relevant to its future.

Senator HEINZ. Senator Metzenbaum, we're doubly grateful to you, grateful for your excellent statement in support of trying to make the Eximbank more responsive, particularly to the needs of our small business community; and second, for your introduction of Mr. Werling who I'm sure will add substantially to our hearing record.

We would have had our small business panel on Tuesday but the scheduling and time constraints simply didn't permit it, so in many respects we saved the best I think for last.

Thank you, Howard.

Senator METZENBAUM. Thank you. I'm going to excuse myself. I don't know what your order is this morning.

Senator HEINZ. Well, the order we've established is that Mr. Trammell will be our leadoff witness, followed by Mr. Best, Mr. Werling, Mr. Weaver, and Ms. Foote.

Please proceed, Mr. Trammell.

**STATEMENT OF WILLIAM D. TRAMMELL, SENIOR MANAGER,
PROJECT FINANCING, FLUOR CORP., IRVINE, CALIF.**

Mr. TRAMMELL. Mr. Chairman, I'm Bill Trammell, manager of project financing for the Fluor Corp., Irvine, Calif. For the last year and a half I've chaired the National Constructors Association's task force on export financing. I'm appearing today on behalf of the NCA.

Before continuing, let me step back into my Fluor role for a moment and thank Eximbank for supporting our refinery project in Indonesia. This project which represents \$500 million of U.S. goods and services has completed its congressional review period this week and should receive final Eximbank approval next week.

Now, Mr. Chairman, on behalf of the NCA, let me thank you for this committee's leadership in supporting and promoting U.S. exports.

Senator HEINZ. Mr. Trammell, if you would hold for a second, I'm advised I have a telephone call and it will take me about 60 seconds, but please proceed with your testimony and I'm going to ask Paul Freedenberg, our staff director on the subcommittee, to exercise the prerogative of the chair during my brief absence. Please proceed.

Mr. TRAMMELL. Well, as I was saying, I would like to thank the committee on behalf of the NCA for its leadership in promoting U.S. exports. The NCA also recognizes the very positive efforts of the Commerce Department, the U.S. Trade Representative's Office, the Treasury Department, and Eximbank to reduce the predatory practices of other countries.

These efforts have led, as we've already heard this morning, to increased interest rates on export credits better reflecting today's monetary conditions and to a reclassification of various borrowing countries.

What brings me here today, though, is our concern that Eximbank is becoming so noncompetitive that we can no longer source exports for projects from the United States. Our time is short today

so I will not attempt to cover all the details presented in our statement of record. I hope that the committee will review this statement at its convenience.

For today, I thought you might like some background on a few of the projects which have been won or lost on the basis of Eximbank support.

BACKGROUND OF EXIMBANK SUPPORT

As a first example of a win, let me discuss the Alrar project in Algeria. This is a gas processing project which accounted for \$220 million of U.S. goods and services exports and supported over 7,000 U.S. jobs. This is very typical of engineering and construction projects in the sense that \$4 of revenue were generated for U.S. manufacturers, insurers, and shippers for every dollar that the E&C companies received. The largest exporter in this project was General Electric with \$36 million of value from the project, and the smallest, a company in Kansas called Cashco, was a \$3,000 order. There were a large number of vendors involved in the project and their values range between these limits.

Another example of a win was an oil refinery expansion in the Ivory Coast. The client was SIR. This is a project that received about \$57 million in U.S. exports, almost equal to what was purchased in France, and it was Eximbank's highly competitive stance that allowed us to win that project and to keep this amount of exports in the United States. This supported about 1,700 U.S. jobs. Vendors for the SIR expansion included companies in California, Oklahoma, New York, and Texas, all of whom received over \$3 million in orders.

Now for some losses. In 1974, Eximbank withdrew a \$500 million preliminary commitment to support Sasol's pioneering coal liquefaction project. As a result, the client turned to equipment purchases from France, Germany, and Japan, and gave these nations a technological advantage in a new industry.

Subsequently, the United States has lost an equivalent amount of equipment because of fast track procurement procedures for Sasol III. Over the next 20 years we will lose additional millions of dollars of spare equipment sales.

In 1976, Dow Chemical Co. had planned a petrochemical complex for Korea. This project had been awarded to an E&C company in the United States and all procurement would have been done in the United States. Unfortunately, Eximbank felt it could no longer support the project, which was moved in total, including engineering hours, to the United Kingdom, completely on a financing decision for this \$150 million project.

As mentioned earlier, a current example is the Trintoc refinery expansion in Trinidad. Five U.S. companies were pursuing this project along with foreign competitors. Not one of those five companies felt that U.S. Eximbank would have provided competitive support and all chose to pursue the job out of their foreign offices. In May the client made a decision principally on financing as to which of the companies pursuing would be negotiated with for award of the final project. Two U.S. E&C firms, Bechtel and Fluor, made the short list, both pursuing the work out of their London

offices. The other short-listed companies were Chyoda from Japan and Technip from France.

Our statement of record also discusses projects in Saudi Arabia and Venezuela which placed majority procurement to non-U.S. sources even though these projects were won by U.S. contractors.

The point is, lack of Eximbank competitiveness is forcing us to give away U.S. jobs and technology. We are being forced to use overseas engineering offices and buy from European and Japanese vendors. Simply put, we believe Eximbank's policies are inconsistent and we believe emphasis is not being placed on facilitating U.S. exports competitively.

PROBLEM AREAS

Current problem areas include fees, interest rates, amount of coverage, targeting of countries not to be supported, mixed credits, and lack of commercial bank participation.

NCA has over 50 members and we believe we have some special problems as service industries. These problems include lack of financing support. In 1980, the service industry accounted for \$41 billion of U.S. exports, yet we received as an industry only \$93 million of direct export credit support. The policy of Eximbank to cover only 65 percent of our country's exports, when other countries are covering 83 percent, causes us some other problems.

Eximbank has expressed a willingness to cover an additional 10 percent if we, the suppliers, will come up with funding for 10 percent, thus totaling 85 percent.

For a service industry whose total profits are not as much as Eximbank is asking us to loan, this is a real problem. We can't bring the equipment manufacturers in to share the burden, because they're often not selected until as much as a year into the project. So, we're asked from the first day to put at risk more than the project is worth to us.

Mr. Chairman, the NCA appreciates your invitation to participate in these hearings. We believe a strong Eximbank has a positive effect on the U.S. economy. Whatever the funding available to Eximbank is, we hope it will be used competitively.

Further, we believe the engineering and construction sector represents a significant means of exporting both U.S. goods and services. And we hope we'll be given a fair share of Eximbank's ongoing support.

Thank you.

[The complete statement follows:]

William D. Trammell
Manager, Project Financing
Fluor Corporation

on behalf of the
National Constructors Association

Statement for the Record
Subcommittee on International Finance & Monetary Policy
Committee on Banking, Housing, and Urban Affairs
United States Senate

September 16, 1982

Mr. Chairman:

I am Bill Trammell, Manager of Project Financing for the Fluor Corporation in Irvine, California. For the past year and a half, I have also served as Chairman of the National Constructors Association Task Force on Export Financing, a group consisting of financing officers from NCA member firms concerned about the inadequate supply of official U.S. export credits. The promotion of U.S. exports remains a priority of the National Constructors Association, on whose behalf I am appearing before you this morning.

The NCA represents more than 50 of the nation's largest industrial engineering-construction firms, the majority of whom have for years relied on overseas markets for growth and expansion. These companies often provide the opening wedge for American business in developing countries through the creation of an industrial infrastructure based on U.S. technology. Because of the importance of establishing a national presence in foreign markets, a fact which every businessman understands, the economic significance of such multimillion and even multibillion dollar projects is substantial.

Mr. Chairman, the National Constructors Association has long appreciated this Committee's leadership in supporting and promoting U.S. exports. We have attempted to assist your staff as well as that of the Senate Export Caucus wherever possible in emphasizing the crucial role played by international trade in our economy. We recognize the positive efforts made by the Commerce Department, the U.S. Trade Representative's Office, the Treasury Department, and the Export-Import Bank to reduce predatory trade practices of other industrialized nations. These efforts have led to an increase in export credit interest rates, better reflecting higher costs of money, and a reclassification of many borrower countries into more appropriate categories.

The link between exports and adequate, competitive export financing is fundamental, and we welcome this opportunity to discuss our views on how our own national financing institution, the Eximbank, can best serve the needs of the U.S. business community.

THE PROBLEM

For almost forty years, the Export-Import Bank of the United States has been the principal government tool for the competitive financing of U.S. exports. Since World War II, most other industrial nations have also developed agencies to provide export credits. The specific approach may vary, but each of these agencies was established to assure that their countries do not lose exports for lack of financing.

International guidelines do exist for limiting the extent to which governments may provide financing support for their companies. Most major exporting nations have joined the Arrangement on Guidelines for Officially Supported Export Credit, which establishes guidelines for minimum interest rates, maximum repayment periods, and minimum down payments. Compliance with the Arrangement is voluntary, and although it is generally respected, it does not

restrict countries from offering more favorable terms. On the other hand, the United States has in recent years provided less coverage and charged higher interest rates than the terms set by the Arrangement. And this has occurred at a time when other more export-conscious countries have increasingly sought ways around the guidelines to further promote their exports.

For example, Eximbank generally covers only 40-65% of the value of U.S. goods and services while other countries routinely cover 85% of their exports. Recent Eximbank interest rates have been as much as 3 percentage points higher than rates offered by other countries. As a result, it is not surprising that the U.S. ranks lowest among industrialized nations in providing government-supported export incentives: the U.S. supports only 6% of its total exports as compared with 12% by West Germany, 29% by France, and 35% by both Great Britain and Japan.

The problem facing U.S. exporters is compounded by recent budgetary constraints which have further curtailed Eximbank's lending authority. While other nations are offering cheaper interest rates and are supporting a higher percentage of a project's total cost, Eximbank is continuing to tighten its belt.

VALUE OF EXIMBANK

In considering the future of the Export-Import Bank, it is important to keep in mind that the institution extends credit to overseas purchasers of U.S. goods and services. These credits are not foreign aid giveaways. They must be repaid and they do earn interest. Eximbank's contribution to the economy and to the U.S. trade balance from export sales generated must also be considered as part of any overall evaluation.

Typically, the cost of an overseas project in a lesser-developed country breaks down to about 15% for engineering and construction, 25% for third

country and local costs, and 60% for the purchase of equipment and other supplies. Not only do engineering-construction firms tend to specify equipment from their own countries, with which they are after all most familiar, but they are usually required to source a certain percentage of that equipment in the country providing the financing package. Once initial equipment is financed and installed, follow-on orders for spares which are not usually covered by export credits continue for many years. Accordingly, the advantages to American manufacturers of projects awarded to U.S. constructors with American financing are obvious.

By way of example, we have prepared an analysis of six projects undertaken by my company, Fluor, three of which were financed in part through Eximbank. The other three projects demonstrate the ability of engineering-construction companies to carry along exports from their country even though the absence of Eximbank support reduced the total benefit to the U.S. economy dramatically. We have attempted to determine the amount of equipment and materials procured from U.S. manufacturers in each case, as well as estimated the number of U.S. jobs associated with that procurement. We have furthermore identified representative suppliers in each instance along with a complete listing of additional U.S. vendors, their locations, and the size of their individual orders.

The Alrar Gas Cycling Project in Algeria provides a typical example of the return on Eximbank financing. Eximbank provided a \$164 million direct loan to Sonatrach, the Algerian national oil company, in 1978. The credit covered 75% of all estimated U.S. exports associated with the project, carried an interest rate of 8.5%, and provided for repayment over ten years following a four year construction period.

Eximbank's direct credit to Sonatrach provided a means for U.S. manufacturers, insurers, and shippers to export about \$4 for every \$1 of Fluor home office services. Thus, only about 20% of Eximbank's support actually went to Fluor while many other U.S. firms, including small businesses that might not otherwise export anything, went along for the ride.

The Alrar Project accounted for \$150 million of U.S. equipment exports. Based on the Census Bureau's estimate that each \$1 billion in exports supports over 30,000 jobs, this project's equipment provided work for over 4,500 Americans. As some specific examples, Alrar's vendors included Hudson Products, a \$300-400 million per year air-cooled heat exchanger manufacturer in Texas which received a \$6.6 million contract and Facet Enterprises, a \$137 million per year company in Oklahoma, which received a \$300,000 order for waste treatment equipment. The largest order, \$35.7 million, went to General Electric in New York while one of the smallest, \$3,000, went to Cashco, a \$13 million per year company in Kansas. In total, the Eximbank credit for the Alrar Project supported vendors in 15 states and provided a basis for almost 7,000 U.S. service and manufacturing jobs.

The Alrar Project is discussed in greater detail in an appendix at the close of this statement. Also examined are projects in Indonesia and the Ivory Coast, both of which were supported by Eximbank prior to current reductions in its lending power and flexibility. I hope the accompanying analysis of sales generated and jobs supported is helpful to the Committee in considering Eximbank's true economic impact. Without Eximbank's support, Fluor might well have been able to sell its services for these projects from one of its engineering offices overseas. By sourcing the financing overseas, however, the U.S. economy would have lost out on millions of dollars in exports.

RESULT OF CURRENT POLICIES

Reductions in Eximbank's direct credit authority as well as current operating policies make it extremely difficult or even impossible for NCA members to bid jobs from their U.S. offices. Not only must Eximbank borrowers pay higher interest rates than those offered by other nations, but they must pay up front financing fees as well. As noted earlier, Eximbank will typically extend no more than 65% coverage for U.S. exports while other credit agencies loan

85% of export value plus funds for local and third country procurement. Furthermore, Eximbank is doing little to meet the mix of government to government development loans and export credits offered by countries like France and Japan. These mixed credits often provide clients with loans at a blended interest rate of 5-6% offered over extended repayment periods.

The results of Eximbank's declining competitiveness can be seen in specific examples. Eximbank had approved a \$500 million credit to South Africa in the mid-1970's to support the world's first commercial coal-to-transport fuel project, but backed out of the agreement for political reasons. The result was no loss of work for the U.S. construction firm, but a loss of over \$400 million to U.S. manufacturers when procurement was shifted to Europe and Japan. A similar loss was incurred when a sister plant was built, not to mention lost sales of spare parts needed to maintain both facilities. Loss of equipment sales for these pioneering coal-to-transport-fuels plants can well give French, German, and Japanese manufacturers a future high technology advantage.

The Appendix also includes discussions of major projects in Saudi Arabia and Venezuela. Had Eximbank not been so restrictive in its policies toward supporting projects in so-called oil rich nations, the U.S. economy could have enjoyed over \$350 million greater materials and equipment exports that could have supported more than 10,000 jobs.

In two further examples, Eximbank was unable to support a \$150 million petrochemical plant to be built for Dow in Korea in the late 1970's. As a result, all goods and services were exported from Great Britain on the strength of financing offered. And in 1981, Eximbank failed to support exports to Australia for the 1,300 kilometer Dampier-Perth gas pipeline. Over \$200 million of lateral welded steel pipe was purchased from Italy and Japan principally as a result of their financing offers.

Because of current restrictions on Eximbank authorization, many NCA

members no longer even consider it in evaluating their financing requirements. Just this year, five U.S. engineering-construction firms submitted export credit financing proposals to Trinidad for the \$500 million Trintoc oil refinery modernization. All concluded independently that the Eximbank was not competitive, and based their proposals on non-U.S. export credits offered at substantially lower interest rates than would have been available here. Two NCA members, Fluor and Bechtel, were selected along with companies from France and Japan for further negotiations. Both Bechtel and Fluor offered their services through financing secured in Great Britain.

EXIMBANK DISINCENTIVES

Current Administration policies on Eximbank are clearly costing the nation dearly in terms of lost export opportunities. Budgetary reductions impacting on the Bank's credit ceiling and noncompetitive interest rates have forced NCA members to look elsewhere for their export financing needs, or to forego opportunities altogether. The impact on our own business varies with our success in securing financing overseas, but the impact of the U.S. economy in terms of lost export sales remains the same.

We regard the following "laundry list" of Eximbank practices as contributing to the increasing tendency of NCA members to look to other countries for export financing. These disincentives have been specifically encountered on numerous occasions, and are real.

- **Fee** - Eximbank has recently instituted a 2% fee, which must be directly paid by borrowers. Other countries charge such fees, but allow exporters to "bury" these payments in their total costs. Canada's Export Development Corporation (EDC) provides a flexible system which allows exporters to either bury or reveal fees, which are charged on each actual client payment.

- Interest Rates - Eximbank continues the long-term practice of charging interest rates higher than those offered by other nations. This serves as a disincentive even though insurance premiums and other charges added on by some export credit agencies, such as France's COFACE, may at times bring the true cost of export credits closer to U.S. interest rates.
- Coverage - Eximbank has, in recent years, sought to stretch its budget by providing 42.5 to 65% of the value of U.S. exports. Competing export credit agencies provide 80 to 85% coverage and are much more flexible on inclusion of local and third country costs. Eximbank's further practice of covering an additional 10% if the exporter will provide direct financing for 10% puts an undue hardship on engineering-construction companies who must arrange first-day project financing a year or more before equipment vendors are selected.
- Country Targeting - Eximbank has a long history of declining to support projects in countries which are deemed to be "too rich" or have "too much" oil production. Support is also withheld in conjunction with varying foreign policy objectives. This policy is not shared by other export credit agencies.
- Mixed Credits - Despite some effort, Eximbank has been ineffective in meeting foreign mixed credit competition. The governments of most major industrialized countries provide low interest loans by combining official export credits with development assistance funds. While some progress has been made under the OECD Arrangement in reporting certain mixed credits, our competitors continue to develop new techniques to circumvent its requirements. Eximbank's Charter does not provide a defense against mixed credits and assistance from other U.S. government agencies does not seem promising.
- Lack of Commercial Bank Participation - Eximbank extends direct credits to buyers of U.S. goods and services. On some occasions, Eximbank guarantees borrowings by consumers of U.S. exports. These guaranteed borrowings are not usually placed with U.S. commercial banks, nor are they supported by government subsidies. Most European export credit agencies provide support through commercial banks by guaranteeing all commercial and political risk for export sales. This latter practice brings in the strength of commercial banks and encourages them to provide loan funds beyond guaranteed and subsidized export credits. Conversion of Eximbank to a European export credit insurer like Britain's Export Credit Guarantees Depart-

ment (ECGD) could relieve U.S. commercial banks of political and commercial risk and allow the use of our banking system's tremendous international lending power. Eximbank's credit authority could be cut significantly and ongoing operations funded through appropriate political and commercial insurance premiums. Should subsidies be required to meet foreign competition, specific budget amounts could be appropriated and paid through Eximbank or a successor agency to the lending commercial banks.

HEINZ PROPOSAL

The National Constructors Association supports S 2600, the Export-Import Bank Restructuring Act of 1982, introduced by Senator Heinz and cosponsored by other members of this Committee. Despite very promising developments in the formation of state export credit agencies, export financing cooperatives, and the like, the Export-Import Bank remains the only serious option available in this country to major U.S. exporters. Simply put, we see no alternative in the near future to a strong, flexible, competitive Eximbank.

S 2600, if enacted, would go a long way toward returning Eximbank to its original purpose by increasing the independence of its Board of Directors, exempting the Bank from the federal budgetary process, and establishing a "war chest" for meeting foreign predatory practices as needed. Each of these steps would be extremely useful. Staggered terms for the Board of Directors would contribute to the political independence of Eximbank, addressing a problem which has contributed greatly in recent years to abrupt changes in Bank policies with changes in Administrations. It does not address, however, what our industry sees as a need for appropriate business representation on the Board. The nine-member Advisory Committee called for in the Charter to represent "production, commerce, finance, agriculture, and labor [Sec 3(d)]," has been eliminated in recent years. While we feel that the Advisory Committee should be reinstated,

consideration should also be given to the appointment of Directors representative of specific business and/or labor groups as a possible remedy to this problem.

We would also underscore the need to exclude Eximbank from the annual budget battles in the Congress. As this Committee has thoroughly documented, net credit outlays of Eximbank do not represent federal expenditures, and should not be carried as such on the Federal Budget. Doing so not only misrepresents Eximbank's actual cost, but also obscures the fact that it has over the years returned over \$1 billion worth of dividends to the Treasury.

Our membership agrees as well that a special "war chest" fund would be extremely useful in combating the official export subsidies of our foreign competitors. We would urge, however, that its application be as broad as possible, and should include services such as engineering and construction. Our industry is particularly vulnerable to predatory financing practices such as mixed credits and similar financing techniques. In view of the intense international competition for engineering and construction contracts, it is critical that U.S. firms have adequate official financing support available. Therefore, we strongly recommend that Section 3 of S 2600, the Export Subsidy Fund, be amended to include services as well as agricultural and manufactured exports.

The NCA Export Financing Task Force has suggested two additional points that could be readily incorporated into legislation considered by the full Senate. A clarified statement of purpose in the Eximbank Charter would be useful in providing policy guidance in the future. Although the Charter states explicitly that Eximbank shall extend credit at rates competitive with those offered by other major exporters [Sec 2(b)(1)(A)], references in the Charter to net earnings seem to suggest that those rates must also be constantly profitable. And, secondly, the Committee may wish to consider the adoption of multi-year budgets for Eximbank which would enable potential exporters to better assess

the availability of funds over a longer period of time. This Committee is in the best position to decide whether these points should be considered as part of current legislation or during renewal of the Export-Import Bank Charter next year.

INTERNATIONAL SERVICES

Mr. Chairman, permit me to comment briefly on the added interest in Eximbank generated by the recent movement within the federal government and business community to address the international competitiveness of U.S. services. Particularly through the efforts of the office of the U.S. Trade Representative and interested members of Congress such as yourself, recognition is being given to the importance of service industries in the economy and as a contributor to the U.S. balance of payments. The National Constructors Association is particularly appreciative of your efforts in this area.

As one of the fastest growing export sectors, U.S. services recorded a whopping \$41 billion trade surplus last year. Adequate financing of service exports is absolutely essential in maintaining the international competitive position of U.S. service industries. In 1980, however, Eximbank provided only \$93 million in direct credits to support service contracts, representing less than 2% of total direct credits authorized. As one of the largest U.S. services, the engineering-construction industry is acutely aware of the important role that we play in overall export trade. A strong, competitive Export-Import Bank, able to place an appropriate emphasis on the financing of service exports, is absolutely essential for us to continue that responsibility.

Once again, Mr. Chairman, we appreciate your invitation to participate in these hearings, and remain prepared to assist you further in any way that we can.

APPENDIX A

ALGERIAN GAS PROCESSING PLANT

Algeria's state owned oil company, Sonatrach, awarded Fluor Engineers and Constructors the Alrar gas processing plant project in 1978 on the condition that competitive export credit financing would be available.

The project was valued at \$335 million, which included potential U.S. goods and services exports totalling \$220 million. Based on the Census Bureau's estimate that \$1 billion in exports supports over 30,000 jobs in the U.S., the project is worth more than 6,600 jobs for Americans.

Equipment and materials represented 70% of the project's U.S. value. This \$150 million in exports includes electrical equipment, piping, vessels, mechanical equipment, control systems and buildings, and employs over 4,500 Americans in companies all over the U.S. The remaining \$70 million supported 2,100 jobs for engineers and other workers in the service industries, such as shipping and insurance.

General Electric, Honeywell and Reynolds Aluminum are among the larger companies benefitting from this overseas project. General Electric received the largest order, \$36.7 million, supporting over 1,100 jobs for its employees, while the smallest order went to ITT Barton, a supplier of valves and control systems in El Dorado, Kansas, who received a \$3,300 order. Many small-sized companies directly benefitted from the U.S. export credits the client received for procurement of manufactured goods. Among these were:

- Buffalo Electric Company was awarded an \$86 thousand order, worth 3 jobs for its 75 employees. Located in Houston, Texas, Buffalo is a distributor of electric supplies and apparatus.

- Jamesbury Valve Company, located in Worchester, Massachusetts, is a manufacturer of valves and electrical actuating devices and process controls. Jamesbury's \$63 thousand order supported at least two jobs for its 1,450 employees.

- Fisher Control Company, Inc. is a marketing and distribution company for valves, regulators and other electronic instrumentation, with \$215 million in sales in 1980. Located in Marshalltown, Iowa, Fisher received a \$65 thousand contract, maintaining 2 jobs for the 5,000 people it employs.

- Cashco Inc. in Evar, Kansas received a \$70 thousand order, supporting jobs for two of its 190 employees. Cashco is a wholesale distributor of control valves, self-contained regulators and boiler parts and had sales of over \$13 million in 1980.

- Facet Enterprises Inc., a manufacturer of environmental waste and treatment equipment, received a \$288 thousand order worth 9 jobs. Located in Tulsa, Oklahoma, Facet had sales of \$141 million in 1981 and employed 2,500 people.

- Union Pump Company in Battle Creek, Michigan received a \$970 thousand contract worth 29 jobs for its 500 employees. Union is a manufacturer of centrifugal, reciprocating power and steam pumps and chemical valves.

- Clow Corporation is a manufacturer of pipes and pipe fittings, water treatment chemicals and equipment, valves and hydrants with \$168 million in sales in 1981. Located in Florence, Kentucky, Clow's order of \$278 thousand supported at least eight jobs for its 2,400 employees.

- RTE-DELTA Corporation, a California subsidiary of RTE Corporation, received a \$2.3 million order for the Alrar job. This supported jobs for 70 of the company's employees. RTE is a manufacturer of oil-filled distribution and small power transformers, rubber-molded, ceramic, and epoxy resin transformer parts, and switchgear and electrical control parts. Headquartered in Wisconsin, the company has manufacturing plants in four different states. The consolidated company had sales of \$197 million and 2,500 employees in 1979.

- Stewart and Stevenson, Inc. of Houston, Texas designs, fabricates and assembles custom-engineered power systems. Stewart and Stevenson had sales of \$270 million in 1980. The company received a \$2.0 million contract for this project, supporting 70 of its 2,300 employees.

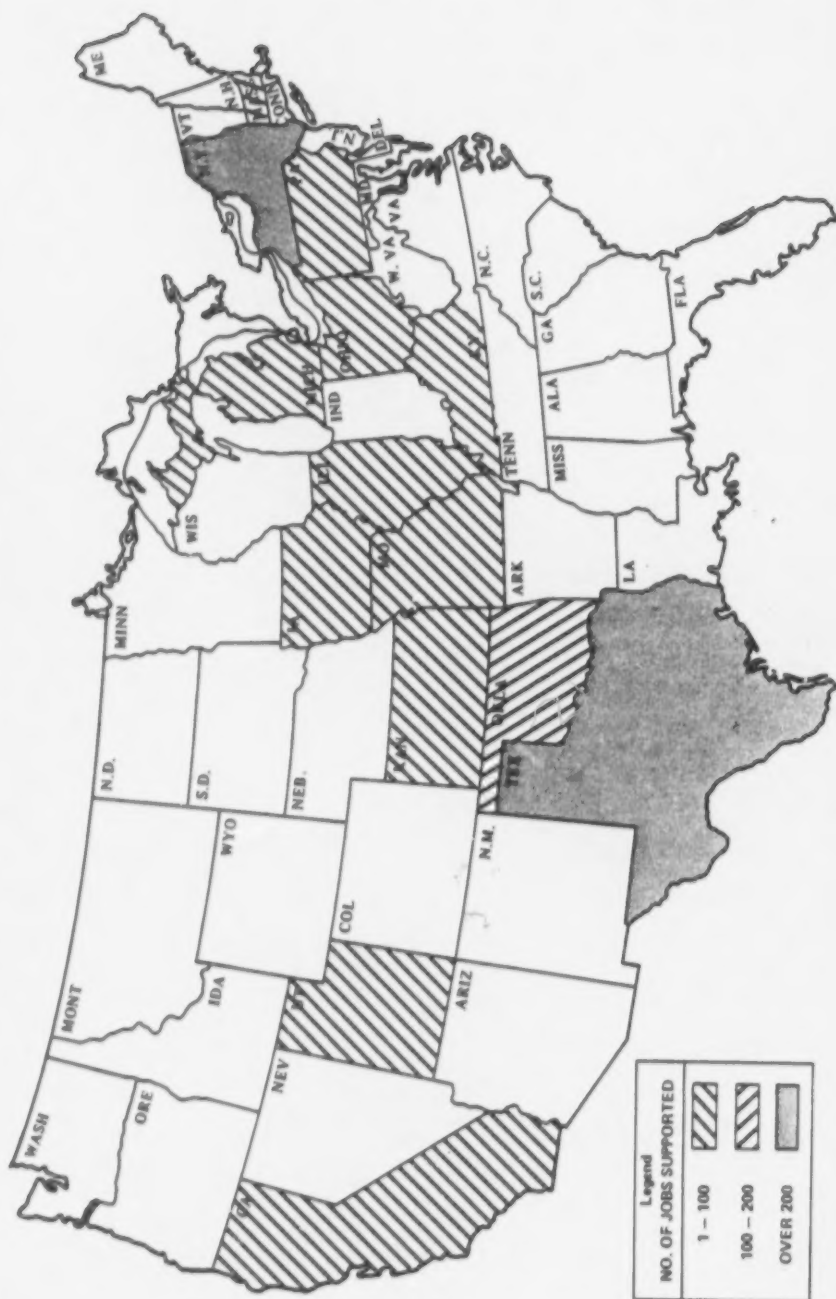
- Cameron Iron Works, headquartered in Houston, Texas, is a multinational corporation engaged in the design, manufacture and marketing of a wide range of high technology products. The corporation has three divisions: the Forged Products Division, which produces high quality steel; the Oil Tool Division which manufactures pressure control equipment for oil and gas wells; and the Ball Valve Division which

produces various valves for use in the oil and gas industry. The company had sales of \$546 million in 1979 and employed 9,300 people worldwide. Cameron received a \$914 thousand order for this project, worth 27 jobs to its American employees.

The map in Exhibit I shows a geographic dispersement of some \$90 million worth of equipment and 2,700 jobs supported by the Alrar project procurement, as of mid-March. Exhibit II identifies the vendors, locations, export value of equipment procured and the number of jobs supported to date. An estimated \$60 million worth of equipment, translating into 1,800 jobs, is yet to be purchased within the United States.

The Export-Import Bank of the United States (Eximbank), however, was unable to competitively support an additional \$30 million of services and equipment needed for this project as a result of changes in the scope of work. The United Kingdom and France have subsequently offered to finance portions of the additional funding needed; thus creating a possible loss of 900 jobs for American workers.

EXHIBIT I
ALGERIAN GAS PROCESSING PLANT
Geographic Dispersement of Equipment Procured from U.S. Vendors



8/26/82

Exhibit II
U.S. VENDORS
ALRAR

<u>PROJECT</u>	<u>VENDOR NAME</u>	<u>COMMODITY</u>	<u>ORDER IN \$</u>	<u>NO. OF JOBS SUP- PORTED</u>	<u>LOCATION</u>
ALRAR	Anaconda	Elect	626,917	19	Marion, OH
ALRAR	Atco	Struct	7,862,819	235	Waco, TX
ALRAR	Best Buildings	Struct	37,885	1	Houston, TX
ALRAR	Buffalo Electric	Elect	86,485	3	Houston, TX
ALRAR	Cameron Iron Works	Pip	913,567	27	Houston, TX
ALRAR	Cashco	ConSys	69,428	2	Evar, KS
ALRAR	Central Texas	Struct	2,288,138	69	Waco, TX
ALRAR	Clow	Mech	277,968	8	Florence, KY
ALRAR	Ecodyne	Mech	289,164	9	Kansas City, MO
ALRAR	F&S Central	Pip	273,437	8	Brooklyn, NY
ALRAR	Facet	Mech	287,292	9	Tulsa, OK
ALRAR	Fisher	ConSys	65,059	2	Marshalltown, IA
ALRAR	Gaffney-Kroese	Elect	3,920	-	New York, NY
ALRAR	General Electric	Mech	36,743,452	1,102	Schenectady, NY
ALRAR	General Electric Supply	Elect	1,209,229	36	Houston, TX
ALRAR	Gould	Mech	23,431	1	Lubbock, TX
ALRAR	GPE Controls	ConSys	55,519	2	Chicago, IL
ALRAR	Honeywell	ConSys	1,005,368	30	Houston, TX
ALRAR	Hudson Products	Pip	6,600,000	198	Bessley, TX
ALRAR	Industrial Fabricators	Mech	128,283	4	El Paso, TX
ALRAR	ITT Barton	ConSys	3,363	0	Eldorado, KS
ALRAR	Jamesbury Valve Co.	ConSys	63,333	2	Worcester, MA
ALRAR	John Zinc	Mech	204,360	6	Tulsa, OK
ALRAR	Mafi-Trench	Mech	704,000	21	Westlake Village, CA
ALRAR	Marlin Valve	Pip	122,241	4	Houston, TX
ALRAR	Memco	Struct	5,002,270	150	New York, NY
ALRAR	Midwest Buildings	Struct	386,000	12	Houston, TX
ALRAR	QHM Electric	Elect	473,000	14	Hawthorne, NY
ALRAR	Piping Engineering	Pip	1,488,429	45	Tulsa, OK
ALRAR	Reynolds Aluminum	Struct	-	-	Memphis, TN
ALRAR	Reynolds Aluminum	Struct	-	-	Malacoff, TX
ALRAR	RTE-Delta Corp.	Elect	2,333,242	70	Stockton, CA
ALRAR	Sauder Industries	Pip	952,640	29	Emporia, KS
ALRAR	Slagle Manufacturing	Pip	974,000	29	Tulsa, OK
ALRAR	Stewart & Stevenson	Pip	2,018,607	61	Houston, TX
ALRAR	T. J. Cope	Elect	535,356	16	Collegeville, PA
ALRAR	Union Pump	Mech	970,000	29	Battlecreek, MI
ALRAR	Valtek	ConSys	1,283,985	39	Springfield, UT
ALRAR	William Powell Co.	Pip	970,963	29	Cincinnati, OH
ALRAR	Word Industries	Pip	3,422,300	103	Tulsa, OK

APPENDIX B
INDONESIAN OIL REFINERY EXPANSION

In April 1980, Fluor received a refinery expansion contract from Pertamina, the government oil company of the Republic of Indonesia. The original oil refinery, located in Southwest Java, was completed by Fluor in 1979. The expansion project, with a total value to Fluor of \$500 million, includes engineering, procurement and construction and covers expansion of utilities, offsites, tankage, additional marine facilities and general support services, in addition to the new process units.

The project has supported many American engineers, designers, consultants and construction managers. In addition, \$109 million in equipment and materials was procured from U.S. suppliers. Based on the Census Bureau estimate that at least 30,000 jobs are supported for each \$1 billion in exports, the U.S. procurement alone is worth over 3,000 jobs for American workers.

This equipment, which includes structural equipment, vessels, piping, electrical equipment and control systems, was purchased from almost 150 different vendors, spread all over the United States. The geographic dispersement of the vendors is shown on the map in Exhibit I.

Many small and medium-sized companies and their employees directly benefitted by this project. A few examples of these vendors follows. A list of all the vendors, their total orders and the number of jobs supported is attached as Exhibit II.

- Rosemount, Eden Prairie, Minnesota, a subsidiary of Emerson Electric Co., St. Louis, Missouri, received a \$731 thousand order supporting 22 jobs for its employees. Emerson Electric and its subsidiaries are engaged in the design, manufacture and sale of a broad range of electrical and electronic products and systems. The consolidated company had sales totalling \$2.6 billion in 1979 and employed 50,000 people.

- Posi-Seal International, Inc. of North Stanton, Connecticut is a manufacturer of high performance trunnion valves. Posi-Seal's \$237 thousand contract supported 7 jobs for its 320 employees. The company had sales of \$22.5 million in 1980.

- Texas Cold Finish, a subsidiary of Commercial Metals Company of Dallas, Texas, was awarded a \$169 thousand order for this project, supporting five jobs. Commercial Metals is engaged in the business of buying, processing and selling scrap ferrous and non-ferrous metals all over the world. The consolidated company employed 2,800 people in 1979 and generated sales of \$1.1 billion.

- Midland-Ross Corp., located in Cleveland, Ohio, is a diversified manufacturer of thermal systems for the steel, metalworking, paper and other industries as well as of earth-moving machinery, mechanical controls for the auto and aerospace industries, and electrical products for industrial, commercial and residential construction. Midland received a \$217 thousand contract supporting seven jobs for its 11,700 employees.

- Econo-Therm Energy Systems Corp., Minnetonka, Minnesota was awarded a \$547 thousand order, worth 16 jobs to its employees. Econo-Therm manufactures equipment for process and waste disposal needs, mainly large fired process heaters, chemical and petroleum process equipment and heat exchangers. The company had sales of \$24.5 million in 1979.

- American Hoist and Derrick Co., St. Paul, Minnesota, received a \$819 thousand order, supporting 25 jobs for its American employees. American Hoist is a manufacturer of cranes and heavy lifting equipment which is sold worldwide. The company, which had sales of \$509 million and employed 7,800 people in 1979, also is one of the largest manufacturers of blocks, hooks and fittings for chain and wire rope.

- Gai-tronics Corporation of Reading, Pennsylvania, received a \$46 thousand contract, worth at least one job for its employees. Gai-tronics is a subsidiary of Gilbert Associates, Inc. which provides engineering, architectural and construction management and consulting services for electric power generation stations and electric transmission systems. The consolidated company had 3,800 employees in 1979.

- Chicago Heater Co., Inc., a subsidiary of Marley Co. of Mission, Kansas, received a \$340 thousand order, supporting 10 jobs. Chicago Heater designs and markets deaerators, flash vessels, cascade heaters and continuous blowdown systems. The consolidated company employed 500 people in 1979.

- Childers Manufacturing Co. of Cleveland, Ohio, was awarded a \$832 thousand order, worth 25 jobs to its employees. Childers is a subsidiary of Overhead Door Corp. of Dallas, Texas, a manufacturer of upward-acting sectional doors, rolling steel curtains and fire doors, and radio controls for door openers. Overhead Door had sales of \$262 million in 1979 and employed 4,600 people.

- Glitsch, a subsidiary of Foster-Wheeler Corp., received a \$462 thousand order, supporting 14 jobs for its American employees. Foster-Wheeler and its subsidiaries design, engineer and construct a wide variety of industrial and process equipment, including fired heaters for oil refineries and chemical producers, steam generators, condensers, feed water heaters and pressure vessels. The consolidated company employed over 19,000 people worldwide.

- Square D, a manufacturer of electrical equipment, received a \$264 thousand order, worth eight jobs to its employees. Located in Palatine, Illinois, Square D had sales of \$826 million and employed 21,000 people in 1979.

Pertamina applied for \$408 million in financing from Eximbank and the application currently is awaiting Congressional approval. This financing, if approved, will cover a major portion of the equipment and materials purchases, engineering and other services of U.S.-origin. However, a combination of client delays in filing for Eximbank support and rate changes of Eximbank provided a basis for procurement from other countries of equipment totalling approximately \$155 million. These exports to Indonesia could have supported 4,600 additional jobs for Americans.

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Exhibit II
U.S. VENDORS
PERTAMINA

PROJECT	VENDOR NAME	COMMODITY	ORDER IN \$	NO. OF JOBS SUP- PORTED	LOCATION
PERT	Acco Industrial	Mech	268,000	8	Downey, CA
PERT	Alco	Struct	37,600	1	Woodland, CA
PERT	All Power, Inc.	Misc	339,000	10	Galveston, TX
PERT	American Hoist	Misc	819,000	25	St. Paul, MN
PERT	Ameron Coatings	Misc	979,000	29	Brea, CA
PERT	Amfac Plumbing	Struct	94,636	3	Los Angeles, CA
PERT	Andale/Pego Systems	Mech	45,080	1	Long Beach, CA
PERT	Associated	Elect	868,000	26	Los Angeles, CA
PERT	B. Hayman	Misc	18,706	1	Santa Fe Springs, CA
PERT	Bogart Bullock	Pip	420,000	13	No. Hollywood, CA
PERT	Brown Boveri, Inc.	Elect	1,723,000	52	Chalfant, PA
PERT	Brown F. tube	Mech	179,000	5	Tulsa, OK
PERT	Byron Jackson	Mech	2,238,000	67	Long Beach, CA
PERT	Cal Alloy	ConSys	318,000	10	So. El Monte, CA
PERT	Cal South	Misc	2,469	-	Long Beach, CA
PERT	Capitol Pipe	Pip	1,661,000	50	Santa Fe Springs, CA
PERT	Chicago Heater	Mech	340,000	10	San Gabriel, CA
PERT	Childer	Misc	832,000	25	Cleveland, OH
PERT	Clark Painting	Misc	449,000	13	Oakland, CA
PERT	Cleaver Brooks	Mech	90,000	3	Glendale, CA
PERT	Cole Supply	Misc	20,819	1	Pasadena, TX
PERT	Cooper & Turner	Struct	38,189	1	Pittsburgh, PA
PERT	Copperheat	Misc	200,000	6	Houston, TX
PERT	Crosby Valve	ConSys	1,423,000	43	Wrentham, MA
PERT	D. V. Troyer	Struct	117,488	4	Cerritos, CA
PERT	Dally Engineering	Pip	483,000	14	Pittsburgh, PA
PERT	Drago Supply	Misc	326,000	10	Galveston, TX
PERT	Dragon	Pip	12,218	-	Norwalk, CA
PERT	Dresser Clark	Mech	7,088,000	213	Olean, NY
PERT	Dunn Welding	Misc	351,000	11	Cleveland, OH
PERT	Dykerhoff & Widman	Struct	41,459	1	San Diego, CA
PERT	E. C. Lester	Misc	138,000	4	Galveston, TX
PERT	Econotherm	Misc	547,000	16	Minnetonka, MN
PERT	Envirogenics	Mech	4,076,000	122	El Monte, CA
PERT	F&S Central	Pip	8,941	-	Brooklyn, NY
PERT	Facet Enterprises	Mech	28,154	1	Tulsa, OK
PERT	Fenestra Division	Struct	102,541	3	San Jose, CA
PERT	Flex-Kleen Corp.	Mech	4,756	-	Chicago, IL
PERT	Flo Bend	Pip	21,669	1	Tulsa, OK
PERT	Fluid Techniques	ConSys	130,000	4	Houston, TX
PERT	Fluor Constructors	Misc	8,666,000	260	Galveston, TX
PERT	Gai-tronics Corp.	Elect	46,101	1	Reading, PA
PERT	Garden City	Mech	227,000	7	Newport Beach, CA
PERT	Gardner Denver	Mech	28,950	1	San Francisco, CA
PERT	Gas Atmospheres	Mech	184,000	6	Port Washington, WI
PERT	General Electric	Elect	355,000	11	Schenectady, NY
PERT	General Pipe	Pip	1,094,000	33	Houston, TX
PERT	Gismo	ConSys	169,000	5	St. Louis, MO
PERT	Glass Steel	Struct	766,151	23	Irvine, CA
PERT	Glitsch	Vess	462,175	14	Dallas, TX
PERT	Gould, Inc.	Elect	450,000	14	Seneca Falls, NY

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U.S. VENDORS
PERTAMINA

PROJECT	VENDOR NAME	COMMODITY	ORDER IN \$	NO. OF JOBS SUP- PORTED	LOCATION
PERT	Graham	Mech	1,644,000	49	Batavia, NY
PERT	Grant Supply	Pip	312,000	9	Buena Park, CA
PERT	Graybar	Elect	738,000	22	Gardena, CA
PERT	Gulf Supply	Pip	1,464,000	44	Buena Park, CA
PERT	Gulf Welding	Misc	548,000	16	Houston, TX
PERT	Guyon Alloys	Pip	195,000	6	Houston, TX
PERT	H-O-H System	Mech	247,000	7	Houston, TX
PERT	Harrold Dessau	Misc	943,000	28	Pasadena, TX
PERT	Harvey Hubbell	Elect	5,638	-	Santa Ana, CA
PERT	Hills McCanna	Pip	187,000	6	Carpentersville, IL
PERT	Hilti Industries	Struct	11,224	-	Santa Ana, CA
PERT	Hoover	Pip	2,814,000	84	Houston, TX
PERT	Houghton Mifflin	Misc	11,375	-	Boston, MA
PERT	Hudson Products	Mech	9,245,000	277	Tulsa, OK
PERT	Hughes-Anderson	Mech	408,000	12	Tulsa, OK
PERT	I. W. Industries	Struct	45,912	1	Houston, TX
PERT	Industrial Air Tools	Misc	569,000	17	Houston, TX
PERT	Ingersoll-Rand	Mech	11,424	-	Painted Post, NY
PERT	Int'l Alloy Steel	Struct	23,029	1	Solon, OH
PERT	Intran	Misc	545,000	16	Cleveland, OH
PERT	J. I. Case	Misc	315,000	9	Houston, TX
PERT	Jamesbury Int'l	Pip	122,000	4	Worcester, MA
PERT	Jensen Int'l	Mech	553,000	17	Tulsa, OK
PERT	John Zink	Mech	35,252	2	Tulsa, OK
PERT	Johnston Pump	Mech	1,596,000	48	Azusa, CA
PERT	Keenan Supply, Inc.	Pip	21,837	1	Long Beach, CA
PERT	Kinema	Mech	871,000	26	Elizabeth, PA
PERT	Kirby Ropes	Misc	139,000	4	Houston, TX
PERT	Koch	Vess	1,328,609	40	Wichita, KS
PERT	Krebs	Struct	174,089	5	Menlo Park, CA
PERT	KTI	Mech	1,441,000	43	Pasadena, CA
PERT	Ladish	Pip	244,000	7	Cudahy, WI
PERT	Leser West, Inc.	Misc	16,284	-	Irvine, CA
PERT	Lincoln Electric	Misc	341,000	10	Houston, TX
PERT	Linden-Alimak	Mech	188,000	6	Gardena, CA
PERT	Mack Truck	Misc	544,000	16	Allentown, PA
PERT	Masoneilan	ConSys	4,229,000	127	Norwood, MA
PERT	Midland Ross	Elect	217,000	7	Pittsburgh, PA
PERT	Milton Roy	Mech	161,000	5	St. Petersburg, FL
PERT	Mobil Chemical	Misc	619,000	19	Azusa, CA
PERT	Montgomery Brothers	Mech	79,811	2	City of Commerce, CA
PERT	Mueller Steam	Pip	157,000	5	Lumberton, NC
PERT	NAPCO	Misc	238,000	7	Houston, TX
PERT	Nash	Mech	220,000	7	Orange, CA
PERT	National Foam	Mech	113,000	3	Lionville, PA
PERT	Northwest Bolt & Nut	Struct	17,700	1	Seattle, WA
PERT	Nunn Royal	Elect	656,000	20	Carson, CA
PERT	Oce Enlargers	Misc	106,000	3	Santa Ana, CA
PERT	Okonite	Elect	369,000	11	Ramsey, NJ
PERT	P. W. Northern	Elect	437,000	13	Philadelphia, PA
PERT	Penberthy	ConSys	376,000	11	Prophetstown, IL

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U.S. VENDORS
PERTAMINA

<u>PROJECT</u>	<u>VENDOR NAME</u>	<u>COMMODITY</u>	<u>ORDER IN \$</u>	<u>NO. OF JOBS SUP- PORTED</u>	<u>LOCATION</u>
PERT	Petrochem	Mech	1,762,000	53	New York, NY
PERT	Petrolite	Mech	492,000	15	Houston, TX
PERT	Pielkenroad Systems	Mech	269,000	8	Corpus Christi, TX
PERT	Posi Seal	ConSys	237,000	7	No. Stanton, CT
PERT	Power Engineering	Pip	56,988	2	Torrance, CA
PERT	Process Strainers	Pip	158,000	5	Houston, TX
PERT	Pulsa Feeder	Mech	6,111	-	Irvine, CA
PERT	Radco	Mech	1,828,000	53	Tulsa, OK
PERT	Republic Supply	Pip	176,000	5	Compton, CA
PERT	Richmond-Lox	Vess	197,861	6	Delphi, IN
PERT	Rigging Int'l	Misc	482,000	14	San Francisco, CA
PERT	Riley Penalarm	ConSys	246,000	7	Skokie, IL
PERT	Rockwell Int'l	Pip	186,000	6	Orange, CA
PERT	Rosemount	ConSys	731,000	22	Eden Prairie, MN
PERT	S&K Rigging	Misc	283,000	8	Houston, TX
PERT	Shand and JURS	Mech	4,194	0	Long Beach, CA
PERT	So. Calif. Instru.	ConSys	195,000	6	Santa Ana, CA
PERT	So. TX Indust. Supply	Misc	105,000	3	Pasadena, TX
PERT	Square D	Elect	264,000	8	Milwaukee, WI
PERT	Stang Hydraulics	Pip	103,000	3	Orange, CA
PERT	Sunstrand Fluid Hndlg.	Mech	906,000	27	Los Angeles, CA
PERT	Superior Air Products	Mech	405,000	12	Sayreville, NJ
PERT	T. F. I.	Elect	147,000	4	Garden Grove, CA
PERT	Tapcoast	Misc	1,156,000	35	Santa Rosa, CA
PERT	Taylor	ConSys	2,153,000	65	Rochester, NY
PERT	Taylor Forge	Pip	120,000	4	Louisville, KY
PERT	Terry Steam Turbine	Mech	270,000	8	Windsor, CT
PERT	Texas Cold Finish	Struct	168,643	5	Houston, TX
PERT	Tidelands Signal	Elect	3,500	-	Houston, TX
PERT	Tool Services, Inc.	Misc	362,000	11	Houston, TX
PERT	Tube Turns	Pip	142,000	4	Louisville, KY
PERT	Turbodyne	Mech	1,768,000	53	Wellsville, NY
PERT	Tyler Dawson	Pip	154,000	5	Houston, TX
PERT	Union Pump	Mech	2,369,000	71	Battlecreek, MI
PERT	United Centrifugal Pump	Mech	4,026,000	121	San Jose, CA
PERT	United Controls	ConSys	1,099,000	33	Santa Fe Springs, CA
PERT	Varec	ConSys	185,000	6	Compton, CA
PERT	Vincent Vanier	Misc	184,000	6	Houston, TX
PERT	Wallace & Tiernan	Mech	343,000	10	Belleville, NJ
PERT	Westinghouse Elect.	Elect	2,892,000	87	South Boston, VA
PERT	WFI Inc.	Pip	7,800	-	Houston, TX
PERT	Wiegman & Rose	Mech	3,573,000	107	Richmond, CA
PERT	Worthington	Mech	8,196,000	246	Wellsville, PA
PERT	Yarway	ConSys	108,000	3	Bluebell, PA

APPENDIX C

IVORY COAST REFINERY EXPANSION - HYDROCRACKING COMPLEX

In 1979, Societe Ivoirienne de Raffinage (SIR) awarded Fluor the hydrocracker complex portion of their Abidjan refinery expansion project.

The Fluor project was valued at \$113 million. To date, over \$57 million of goods and services have been exported from the U.S. for this project. This value supports jobs for over 1,700 Americans, based on the Census Bureau estimate that at least 30,000 jobs are supported for each \$1 billion in exports. Spare parts totalling \$1.4 million currently are being ordered in the U.S., and will support another 42 jobs for American workers. Additional spares will be required throughout the project's 20+ year life.

The equipment and supplies were ordered through over seventy different vendors all over the United States. The attached map (Exhibit I) demonstrates the geographic dispersement of these vendors. A list of vendors, the total contract awarded to each and the number of jobs supported by the contract is attached as Exhibit II. Many small and medium-sized companies were directly affected by this project and gained overseas sales due to the export credits which provided necessary financial assistance. A few examples of the vendors supported are shown below.

- Transmation, Inc., of Rochester, New York was awarded a \$271 thousand order worth 8 jobs to its 195 employees. Transmation, whose total 1981 sales were \$7 million in 1981, makes electronic monitoring instrumentation used for measure-

ment, indication and transmission of information.

- Cohu, Inc., located in San Diego, California, produces electronic test and detection devices, component handling systems and environment chamber test systems. Cohu's order of \$123 thousand supported four jobs for its 439 employees.

- Deltak Corp.'s order of \$202 thousand supported six jobs for its 273 employees. Located in Minneapolis, Minnesota, Deltak manufactures heat recovery equipment, mainly waste heat boiler and wood and coal-fired steam boilers.

- Foxboro of Foxboro, Massachusetts, is a leading manufacturer and distributor of instrumentation and control systems used for measuring and controlling manufacturing process variables by means of electronic, pneumatic and mechanical devices. Foxboro had sales of \$607 million in 1981 and employed 12,000 people. The SIR contract of \$376 thousand supported eleven of these jobs.

- GCA and its subsidiary, Precision Scientific of Chicago, Illinois, manufacture industrial equipment and products, laboratory apparatus, semiconductor production equipment and vacuum metals processing systems. Together they received orders totalling \$185 thousand, which backed six jobs for their 1,800 employees.

- Dresser Industries and its subsidiaries were awarded contracts totalling \$1.6 million, supporting 46 jobs for its American employees. Dresser is a large multi-national corporation which manufactures specialized products for a wide range of industries. Its products include oil and gas exploration

and drilling equipment, energy processing and conversion equipment, refractory equipment and equipment used in road construction. The company is headquartered in Dallas, Texas and has manufacturing facilities all over the United States. Contracts for this job were awarded to subsidiaries in New York and Connecticut. Dresser had total sales of \$3.5 billion in 1979 and employed 55,000 people worldwide.

Despite the committed support available from the Export-Import Bank of the United States (Eximbank) for equipment and services procured in the U.S., Eximbank declined coverage for \$8.7 million of U.S. materials and services outside of Fluor's scope of work. These exports were worth over 260 jobs for Americans. As this was the first Ivory Coast project financed by Eximbank, the lack of support for these U.S. items caused some disillusion as to Eximbank's policies and procedures.

EXHIBIT I
IVORY COAST REFINERY EXPANSION — HYDROCRACKING COMPLEX
Geographic Dispersement of Equipment Procured from U.S. Vendors



Exhibit IIU.S. VENDORSIVORY COAST

6/26/82

<u>PROJECT</u>	<u>VENDOR NAME</u>	<u>COMMODITY</u>	<u>ORDER IN \$</u>	<u>NO. OF JOBS SUP- PORTED</u>	<u>LOCATION</u>
SIR	Ace Crane	Mech	143,050	4	Los Angeles, CA
SIR	American Cyanamid	Vess	1,114,854	33	Wayne, NJ
SIR	AMETEC	Mech	3,125	-	E. Moline, IL
SIR	Armstrong	Mech	15,272	1	Westchester, PA
SIR	Bas-Tax	Mech	25,794	1	Houston, TX
SIR	Bentley Nevada	ConSys	52,179	2	Minden, NV
SIR	Bingham Williamette	Mech	1,264,659	38	Portland, OR
SIR	Bogart Bullock	Pip	92,648	3	N. Hollywood, CA
SIR	Brooks Instrument	ConSys	54,777	2	Hartfield, PA
SIR	Burgess Ind.	Mech	12,589	-	Dallas, TX
SIR	Byron Jackson	Mech	434,160	13	Los Angeles, CA
SIR	Gen. Texas Iron Works	Struct	861,281	26	Waco, TX
SIR	Charles P. Crowley	Mech	160,728	5	Los Angeles, CA
SIR	Cohu, Inc.	ConSys	122,599	4	San Diego, CA
SIR	Control Specialists	ConSys	57,469	2	El Monte, CA
SIR	Daniel	ConSys	61,126	2	Houston, TX
SIR	Deltax	Mech	201,974	6	Minneapolis, MN.
SIR	Demco	Pip	12,710	-	Oklahoma City, OK.
SIR	Dresser Clark	Mech	1,513,638	45	Olean, NY
SIR	Dresser Ind. Valve	ConSys	44,696	1	Stratford, CT
SIR	Durco	Pip	31,148	1	Cookeville, TX
SIR	Envirex	Mech	73,753	2	Conshohocken, PA
SIR	F&S Central	Pip	76,633	2	Brooklyn, NY
SIR	FABSTEEL	Vess	371,083	11	Waskom, TX
SIR	Facet	Mech	30,860	1	Tulsa, OK
SIR	Foxboro	ConSys	375,923	11	Foxboro, MA
SIR	Frederick Pump	Mech	3,639	-	Los Angeles, CA
SIR	Fresno Structural	Struct	487,859	15	Fresno, TX
SIR	GCA Corp.	ConSys	54,296	2	Chicago, IL
SIR	General Piping	Pip	125,245	4	Houston, TX
SIR	General Piping	Pip	172,903	5	Houston, TX
SIR	General Welding	Vess	594,569	18	Houston, TX
SIR	Gould, Inc.	Mech	27,613	1	Seneca Falls, NY
SIR	Grant	Pip	64,450	2	Buena Park, CA
SIR	Grant Supply	Pip	55,989	2	Buena Park, CA
SIR	Gulf Consolidated	Pip	1,160,281	35	Houston, TX
SIR	Industrial Fabricators	Mech	3,205,127	96	Tulsa, OK
SIR	Ingersoll-Rand	Mech	680,747	20	Painted Post, NY
SIR	K. L. Cook	Mech	6,795	-	Sugarcreek, OH
SIR	Kinema	Mech	643,272	19	Elizabeth, PA
SIR	Kinema	Mech	12,775	-	Elizabeth, PA
SIR	Koch Engineering	Vess	65,191	2	Wichita, KS
SIR	NTI	Mech	3,233,533	97	Pasadena, CA
SIR	Mack Iron	Pip	51,894	2	Sandusky, OH
SIR	Masoneilan	ConSys	938,682	28	Norwood, MA
SIR	McJunkin	Pip	78,163	2	Anaheim, CA
SIR	Mercoid	ConSys	19,352	1	Chicago, IL
SIR	Milton Roy	Mech	21,619	1	St. Petersburg, FL
SIR	Norton	Vess	33,288	1	Akron, OH
SIR	Nutter Engineering	Vess	45,014	1	Tulsa, OK
SIR	Pacific Pumps	Mech	75,626	2	Los Angeles, CA

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U.S. VENDORS
IVORY COAST

<u>PROJECT</u>	<u>VENDOR NAME</u>	<u>COMMODITY</u>	<u>ORDER IN \$</u>	<u>NO. OF JOBS SUP- PORTED</u>	<u>LOCATION</u>
SIR	Pall Western	Mech	4,540	-	Cortland, NY
SIR	Petro Chem	Mech	3,754,328	112	New York, NY
SIR	Piping Specialties	Pip	411,347	12	South Gate, CA
SIR	Precision Scientific	ConSys	62,255	2	Chicago, IL
SIR	Puget Sound	Pip	48,331	1	Torrance, CA
SIR	Republic	Pip	256,609	8	Los Angeles, CA
SIR	Richmond Engineering	Vess	178,106	5	Richmond, VA
SIR	Rockwell	Pip	48,218	1	Orange, CA
SIR	Ronan	ConSys	36,798	1	Chatsworth, CA
SIR	Ronan Engineering	ConSys	137,966	4	Chatsworth, CA
SIR	Sauder	Vess	263,392	8	Emporia, KS
SIR	Southwest Fabricators	Pip	3,624,018	109	Houston, TX
SIR	Sunstrand	Mech	121,953	4	Denver, CO
SIR	Torque & Tension	Pip	163,226	5	Campbell, CA
SIR	Transmation	ConSys	270,672	8	Rochester, NY
SIR	Tyler Dawson	Pip	532,392	16	Houston, TX
SIR	Union Carbide	Vess	1,585,250	48	New York, NY
SIR	Union Pump	Mech	92,928	3	Battle Creek, MI
SIR	United Catalyst	Vess	481,323	14	Chicago, IL
SIR	United Centrifugal Pump	Mech	312,963	9	San Jose, CA
SIR	Van Stone Conveyor	Vess	49,979	2	Los Angeles, CA
SIR	Vare	Mech	4,335	-	Compton, CA
SIR	Vickery	ConSys	29,672	1	Arlington, TX
SIR	Wallace Co.	Pip	439,997	13	Houston, TX
SIR	Walworth	Pip	8,224	-	Downey, CA
SIR	Waner	Mech	331,699	10	Tulsa, OK
SIR	William Powell Co.	Pip	602,750	18	Cincinnati, OH
SIR	William Powell Co.	ConSys	111,705	3	Cincinnati, OH
SIR	Yarway	ConSys	115,807	3	Bluebell, PA
SIR	Yeary	Pip	41,207	1	Costa Mesa, CA

APPENDIX D

SAUDI ARABIAN POLYETHYLENE PLANT

KEMYA, a joint venture company between Saudi Basic Industries Corporation (SABIC) and Exxon Chemical Arabia, Inc., awarded Fluor a \$500 million contract for a linear, low-density polyethylene plant in Al Jubail, Saudi Arabia. Phase I of the project, which began in September 1980, included planning and design assistance while Phase II started in February 1981 and consisted of engineering, procurement and construction management.

Materials and equipment procured, to date, in the United States for this project have totalled over \$21 million. Based on the Census Bureau's estimate that \$1 billion in exports supports at least 30,000 jobs for Americans, the procurement is worth over 630 jobs. American engineering jobs also were supported by this project, including the initial planning and design engineering and construction management.

The equipment and materials were procured from sixty-five U.S. suppliers spread all over the country, as seen on the map in Exhibit I. Following is a sample of the size and type of U.S. companies which have benefited from this overseas project. A list of all the suppliers is attached as Exhibit II.

- Zurn Industries Inc. of Erie, Pennsylvania, received a \$1.4 million order for this project, supporting 43 jobs for its employees. Zurn designs, manufactures and markets systems and products used in the treatment and control of water and wastewater, as well as energy systems such as steam generators, heat

transfer equipment and mechanical energy conversion products. The company had sales of \$364 million in 1981 and employed 4,700 people.

- Milton Roy Co., St. Petersburg, Florida, designs and manufactures specialized industrial process control equipment, such as fluid control and laboratory analytical instrumentation. The company had sales of \$63 million in 1981 and employed 930 people. Its order of \$69 thousand was worth at least two jobs to its employees.

- Chemineer Inc., located in Daytown, Ohio, received a \$523 thousand contract, supporting 16 jobs for its 520 employees. Chemineer designs and manufactures fluid agitation and mixing equipment, propeller agitators and static mixers.

- Pall Corporation of Glen Cove, New York, supplies fine filters and other fluid clarification equipment used to remove solid, liquid and gaseous contaminants. The \$171 thousand order received by its California plant supported five jobs for its 3,200 employees.

- Trane Company, La Crosse, Wisconsin, was awarded a \$576 thousand order worth 17 jobs to its employees. Trane develops and manufactures air conditioning equipment systems for commercial, industrial and residential buildings. The company also manufactures air conditioning equipment for trucks and railroad cars, and special purpose heat transfer and pollution control equipment. Trane had sales of \$658 thousand and employed 13,000 people in 1979.

- Harvey Hubbell, located in Santa Ana, California, is a manufacturer of electrical wiring devices, electronic equipment and compressors. The company received a \$60 thousand contract, worth two jobs for its 7,600 employees.

- Atlas Copco Inc. of Wayne, New Jersey, a subsidiary of Atlas Copco AB, Sweden, manufactures compressors, rock drills and compressed air-driven tools. The U.S. subsidiary received a \$687 thousand order, worth 21 jobs to its American employees.

- Sundstrand Corporation of Rockford, Illinois, received a \$298 thousand order, supporting 9 jobs for its California plant's employees. Sundstrand is engaged in the design, manufacture and sale of a wide variety of engineering and processing products, including hydrostatic and mechanical transmissions and related components, heat transfer equipment, and fluid handling equipment such as pumps and compressors. Sundstrand had total worldwide sales of \$843 million in 1979 and employed 15,000 people.

The Export-Import Bank of the United States (Eximbank) did not offer any type of competitive financing for this project, hence approximately \$53 million additional in equipment and materials was imported from non-U.S. sources, a loss of a possible job support for 1,500 American workers.

EXHIBIT I
SAUDI ARABIAN POLYETHYLENE PLANT PROJECT
Geographic Dispersement of Equipment Procured from U.S. Vendors



8/26/82

Exhibit II
U.S. VENDORS
KEMVA

PROJECT	VENDOR NAME	COMMODITY	ORDER IN \$	NO. OF JOBS SUP- PORTED	LOCATION
KEM	A&A Machine	Mech	176,255	5	La Marque, TX
KEM	Acrison	Mech	1,247,200	37	Moonachie, NJ
KEM	Aerofin Corp.	Mech	1,632	-	Los Angeles, CA
KEM	Allied Ind.	Mech	4,256,039	127	Houston, TX
KEM	Allis Chalmers	Mech	153,470	5	Milwaukee, WI
KEM	AMFAC	Elect	41,650	1	Long Beach, CA
KEM	Anderson	ConSys	5,376	-	So. Pasadena, CA
KEM	Ark Ramos	Misc	12,851	-	Oklahoma City, OK
KEM	Associated	Elect	36,175	1	Los Angeles, CA
KEM	Atlas COPCO	Mech	686,620	21	Wayne, NJ
KEM	Brooks Instrument	ConSys	52,128	2	Buena Park, CA
KEM	BS&B Safety	ConSys	8,317	-	Santa Fe Springs, CA
KEM	C. M. Kemp	Mech	130,890	4	North Hollywood, CA
KEM	CEA Carter Int'l	Mech	163,628	5	Minneapolis, MN
KEM	Check-All Mfg. Co.	Pip	16,859	1	Garden Grove, CA
KEM	Chemineer Kenics	Mech	522,534	16	Dayton, OH
KEM	Chicago Heater	Mech	59,836	2	San Gabriel, CA
KEM	Clow Corp	Mech	39,928	1	Melrose Park, IL
KEM	Coherent Comm.	Misc	37,040	1	Hauspauge, NY
KEM	Combination Pump Valve	Pip	47,886	1	Philadelphia, PA
KEM	Consler Corp.	Mech	35,383	1	Long Beach, CA
KEM	Crane Deming	Mech	49,540	1	Signal Hill, CA
KEM	Daniel Ind.	Pip	26,009	1	Houston, TX
KEM	Dietrich Std.	ConSys	58,186	2	El Monte, CA
KEM	EMEC	Misc	5,235	-	Halendale, FL
KEM	Exide Electric	Elect	89,428	3	Tustin, CA
KEM	Fiberglass Resources	Pip	932,288	28	Farmingdale, NY
KEM	Filter Specialists	Mech	29,440	1	Long Beach, CA
KEM	Fluid Handling	Misc	2,600	-	Paramount, CA
KEM	Fluid Kinetics	Mech	4,216	-	So. Pasadena, CA
KEM	Franklin Miller	Mech	99,680	3	W. Orange, NJ
KEM	Futura Metal Tech	Mech	143,300	4	Westlake Village, CA
KEM	Gala Ind.	Mech	216,720	7	So. Charleston, WY
KEM	Grant Supply	Pip	9,793	-	Buena Park, CA
KEM	Graybar	Elect	46,932	1	Gardena, CA
KEM	Halycon	Misc	12,980	-	San Jose, CA
KEM	Harvey Hubbell	Elect	60,276	2	Santa Ana, CA
KEM	Heat Engineering	Mech	126,190	4	El Monte, CA
KEM	Ingersoll-Rand	Mech	57,290	2	Painted Post, PA
KEM	J. C. Biddle	Misc	18,604	1	Torrance, CA
KEM	Jamesbury Int'l	Pip	74,153	2	Worcester, MA
KEM	Kason Priority Sys.	Mech	57,345	2	City of Industry, CA
KEM	Lampson Corp.	Mech	56,524	2	Syracuse, NY
KEM	Masoneilan	ConSys	20,693	1	Norwood, MA
KEM	MCC Centerline	Pip	78,925	2	Tulsa, OK
KEM	McGill/Brock Easley	Mech	129,250	4	Tulsa, OK
KEM	Midwest Int'l	Mech	19,374	1	Charlevoix, MI
KEM	Milton Roy	Mech	69,275	2	St. Petersburg, FL
KEM	Mueller Steam Spec.	Pip	2,277	-	Lumberton, NC
KEM	Pall Filters	Mech	171,263	5	City of Industry, CA
KEM	Plantronics	Misc	2,715	-	Frederick, MD

8/26/82

U.S. VENDORS
KEMYA

<u>PROJECT</u>	<u>VENDOR NAME</u>	<u>COMMODITY</u>	<u>ORDER IN \$</u>	<u>NO. OF JOBS SUP- PORTED</u>	<u>LOCATION</u>
KEM	Pressure Products	Mech	221,132	7	Warminster, PA
KEM	R. W. Holland	Mech	70,990	2	Indianapolis, IN
KEM	Sundstrand Fluid	Mech	297,808	9	Los Angeles, CA
KEM	Texas Cold Finish	Struct	57,906	2	Houston, TX
KEM	Trane Co.	Struct	575,802	17	City of Industry, CA
KEM	Tranter, Inc.	Mech	79,788	2	Wichita Falls, TX
KEM	Tufline Div./Xomox	Pip	40,369	2	Cincinnati, OH
KEM	Valtek/Auto Control	ConSys	41,991	1	Santa Fe Springs, CA
KEM	W.F.I. Inc.	Misc	3,578	-	Houston, TX
KEM	Wallace & Tiernam	Mech	95,622	3	Belleville, NJ
KEM	Werner & Pfeiderer	Mech	7,649,853	230	Ramsey, NJ
KEM	Westinghouse	Elect	305,774	9	Anaheim, CA
KEM	Whirl Air Flow	Mech	33,900	1	Minneapolis, MN
KEM	Zurn Ind.	Mech	1,442,455	43	Erie, PA

APPENDIX E

SAUDI ARABIAN PETROCHEMICAL COMPLEX

Fluor was selected in 1976 as managing contractor for Saudi Arabia's largest petrochemical complex, a \$3 billion grass-roots ethylene-based facility at Al Jubail. As managing contractor, Fluor has been responsible for the engineering and design, procurement of equipment, and managing of construction activities.

Over \$125 million in equipment and materials was exported from the U.S. for this project, supporting jobs for over 3,700 Americans. This is based on the Census Bureau's estimate that \$1 billion in exports supports over 30,000 jobs in the U.S. The equipment, which included electrical and mechanical equipment, piping, control systems and building materials, was procured from 160 U.S. vendors spread all over the U.S. The largest order, for \$10.7 million, went to the Swenson Division of Whiting International, Inc., of Harvey, Illinois, a subsidiary of Wheelabrator-Frye, Inc. The order supported at least 600 jobs for Whiting's employees. Wright Anderson, City of Commerce, California, received the smallest order of \$7.8 thousand.

Many different sizes and types of companies and their employees directly benefited from the procurement for this overseas project. This is in addition to the support to the American engineers who are performing the design, engineering and construction management functions.

A sample of the different types of U.S. companies which received orders for this project follows:

- Goulds Pump, Inc. of Seneca Falls, New York was awarded a \$3.0 million contract, worth 89 jobs to its 3,000 employees. Goulds is a manufacturer of centrifugal, reciprocating and

rotary pumps as well as domestic water systems and oil well pumping equipment. The company had sales totalling \$214 million in 1979.

- Graham Manufacturing Co., Glendale, California received a \$1.5 million order, supporting 45 jobs for its 884 employees. Graham designs and manufactures equipment for vacuum pumping, for cooling and condensing vapors and for exchanging heat between liquids and gases.

- Dover Corporation is the largest U.S. manufacturer of hydraulic elevators and a major supplier of electrical elevators. The company also is a leading manufacturer of petroleum products such as valves and fittings, pumps and other equipment. Headquartered in New York, Dover has manufacturing facilities in nine states and employed 10,000 people worldwide in 1979. The \$236 thousand order received by its California subsidiary was worth seven jobs to its employees.

- Joy Manufacturing Co. of Schaumburg, Illinois is engaged in the design, engineering, manufacturing and distribution of mining systems equipment, air machinery and other processing equipment. The company has plants in 15 different states and had sales of \$782 million in 1979. Joy was awarded a \$1 million contract for this project, thus supporting 30 jobs for its 13,000 employees.

- Selas Corporation of America, of Dresher, Pennsylvania, received a \$4.6 million order, worth 139 jobs for its 615 employees. Selas designs, engineers and manufactures process heating equipment. The company's furnaces, recuperative heat systems and controls

operate on oil, gas or electricity and are marketed throughout the world. The company's sales totalled \$64 million in 1979.

- Chicago Heater Co., Inc. received a \$324 thousand order for this project, worth ten jobs to its employees. Chicago Heater designs and markets deaerators, flash vessels, cascade heaters and continuous blowdown systems. The company is a subsidiary of Marley Co. of Mission, Kansas, which employed 500 people (including Chicago Heater) in 1979.

- Electronics Corporation of America, located in Cambridge, Massachusetts, designs and manufactures high-quality precision electronic controls, control systems and related equipment. Electronics had sales of \$37 million in 1979. The company's \$636 thousand order supported 19 jobs for its 880 employees.

- Stang Hydronics, Inc. of San Clemente, California received a \$222 thousand order worth seven jobs. Stang is engaged in the manufacture, distribution and service of de-watering systems for construction, pumps and pumping systems, pollution control, and fire fighting apparatus. The company had sales of \$20 million in 1979 and employed 225 people worldwide.

- TRE Corp. of Los Angeles, California manufactures welded stainless steel, super-alloy and titanium honeycomb sandwich panels for the aerospace industry, as well as locks

and builders hardware. The company had sales of \$102 million in 1979 and employed 2,300 people. The \$265 thousand order it received supported eight jobs.

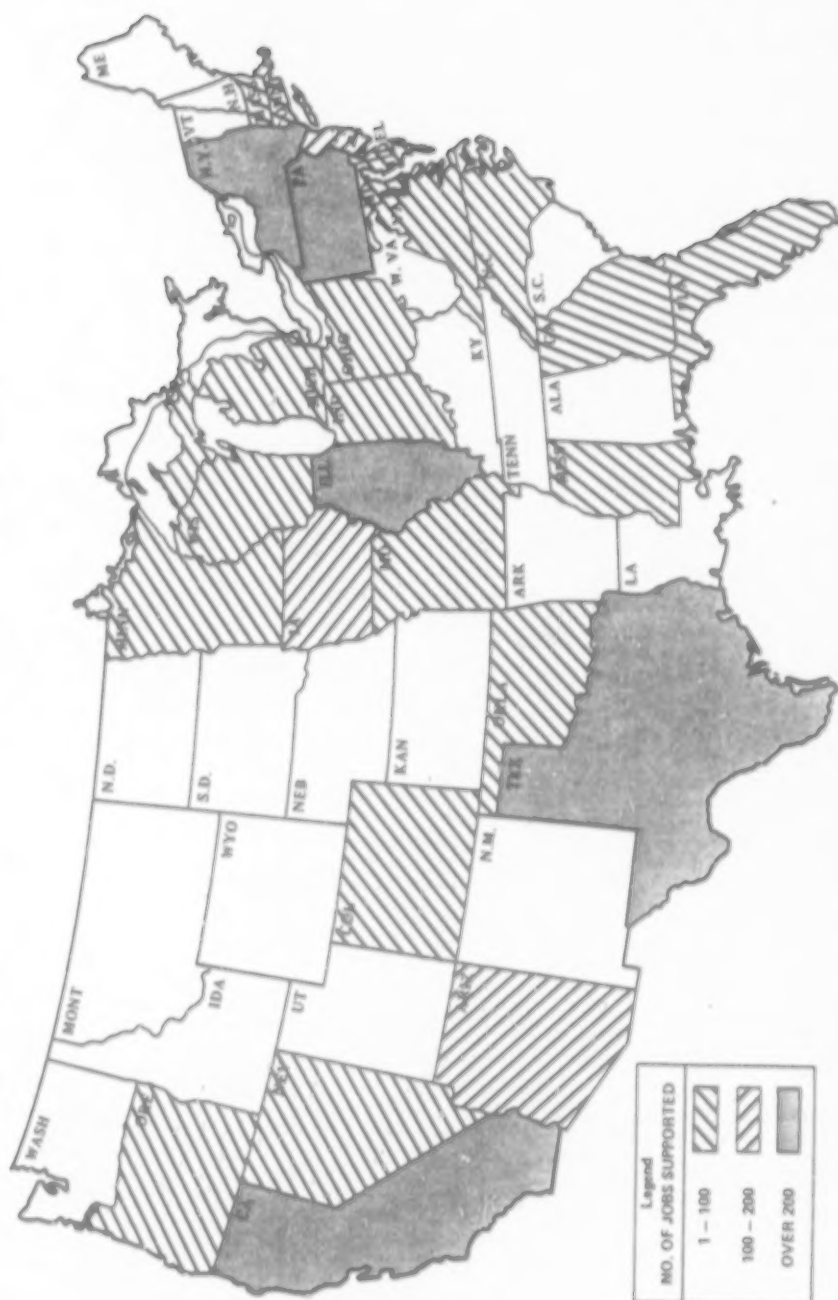
- Raychem of Menlo Park, California received a \$168 thousand order, worth five jobs. Raychem, whose sales totalled \$338 million in 1979, primarily develops and manufactures high performance plastic and elastomeric insulation products and systems. The company's business consists of development of commercial applications of radiation chemistry through the creation, manufacture and sale of its insulation products. Raychem had 6,700 employees in 1979.

- Kahn Industries Inc. is a manufacturer of dynamometers which measure horsepower and power handling capabilities of rotary gear systems on engines. Located in Wethersfield, Connecticut, Kahn had sales of \$636 thousand in 1979. The \$355 thousand order received from this project therefore had a significant impact on the company's operations and supported 11 jobs for its employees.

The map in Exhibit I demonstrates the wide dispersement of orders to U.S. vendors. Exhibit II lists each vendor, the contract awarded and the type of material ordered.

In addition to the equipment and materials exported by the U.S. for this project, approximately \$245 million (almost twice the U.S. value) was exported by other countries, partially as a result of the lack of competitive financial assistance from the Export-Import Bank of the United States (Eximbank). These losses of exports to other countries resulted in loss of possible support of over 7,300 jobs for American workers.

EXHIBIT 1
SAUDI ARABIAN PETROCHEMICAL COMPLEX
 Geographic Dispersement of Equipment Procured from U.S. Vendors



6/26/82

Exhibit II
U.S. VENDORS
SAUDI PETROCHEMICAL

<u>PROJECT</u>	<u>VENDOR NAME</u>	<u>COMMODITY</u>	<u>ORDER IN \$</u>	<u>NO. OF JOBS SUP- PORTED</u>	<u>LOCATION</u>
SPC	Acco Industries	Mech	448,737	13	Downey, CA
SPC	Acme Enterprises	Misc	79,717	2	Houston, TX
SPC	Acoustical Material	Struct	122,603	4	City of Commerce, CA
SPC	Adco Equipment	Misc	18,359	1	La Puente, CA
SPC	Aitken, Inc.	ConSys	688,000	21	Houston, TX
SPC	AMFAC	Elect	522,000	16	Long Beach, CA
SPC	Amfac Plumbing	Struct	65,660	1	Los Angeles, CA
SPC	Andale Co.	Mech	31,503	1	Lansdale, PA
SPC	Andco Environmental	Mech	128,562	4	Buffalo, NY
SPC	Anderson IBEK	Mech	11,297	-	Strongsville, OH
SPC	Angewa Engine Center	Misc	160,492	5	Lynwood, CA
SPC	Armstrong Engrs.	Mech	369,300	11	Westchester, PA
SPC	Ashbrook Simon	Mech	1,016,337	30	Houston, TX
SPC	Associated	Elect	992,000	30	Los Angeles, CA
SPC	Atwood & Morrell	Pip	310,772	9	Salem, MA
SPC	B&C Industrial Supply	Misc	187,508	6	Orange, CA
SPC	Bentley Nevada	ConSys	188,380	6	Minden, NV
SPC	Bingham-Williamette	Mech	849,000	25	Portland, OR
SPC	Bldg. Fasteners	Misc	106,109	3	Houston, TX
SPC	Briggs-Weaver	Misc	103,808	3	La Fort, TX
SPC	Brown Fintube	Mech	51,280	2	Elyria, NY
SPC	Burgess Manning/Pego	Mech	14,080	-	Long Beach, CA
SPC	Calgon Corp.	Mech	8,367	-	Pittsburgh, PA
SPC	Chicago Heater	Mech	323,942	10	San Gabriel, CA
SPC	Chromalox Western	Elect	87,728	3	S. El Monte, CA
SPC	Clark Painting Co.	Misc	155,875	5	Concord, CA
SPC	Clow & Skinner	Pip	72,310	2	Carlsbad, CA
SPC	Coherent Communicns	Misc	33,695	1	Hauppauge, NY
SPC	Colombia Specialty	ConSys	36,200	1	Paramount, CA
SPC	Colorguard Corp.	Struct	184,682	6	Raritan, NJ
SPC	Console Elec. Distbtr.	Elect	290,000	9	Costa Mesa, CA
SPC	Consolidated	ConSys	93,434	3	Paramount, CA
SPC	Continental Products	Mech	1,956,177	59	Odessa, TX
SPC	Coordinated Wire Rope	Misc	160,948	5	Wilmington, CA
SPC	D. V. Troyer	Struct	526,807	16	Cerritos, CA
SPC	Daniel Industries	Pip	23,503	1	Compton, CA
SPC	Deon Equipment	Mech	646,856	19	Farmingdale, NY
SPC	Donaldson Co.	Mech	129,528	4	Minneapolis, MN
SPC	Dover/Norris	Pip	235,894	7	Cerritos, CA
SPC	Dow Chemical Int'l	Pip	95,300	3	Bay City, MI
SPC	Dresser Ind. Valve	ConSys	144,782	4	Stratford, CT
SPC	Duraline, Inc.	Misc	225,191	7	Central Islip, NY
SPC	Dyna-Therm	Vess	100,000	3	Houston, TX
SPC	Dyna-Therm	Vess	127,110	4	Houston, TX
SPC	Electronic Corp.	ConSys	635,610	19	Cambridge, MA
SPC	Elliott/Carrier	Mech	15,904,000	477	Jeanette, PA
SPC	Engineer/Fabricators	Mech	976,000	29	Houston, TX
SPC	Eur-Control	ConSys	189,610	6	Decatur, GA
SPC	Exide Electric	Misc	123,227	4	Tustin, CA
SPC	Facet Enterprises	Mech	33,048	1	Tulsa, OK
SPC	Fenestra	Struct	219,781	7	San Jose, CA

4/20/82

U.S. VENDORS
SAUDI PETROCHEMICAL

PROJECT	VENDOR NAME	COMMODITY	ORDER IN \$	NO. OF JOBS SUP- PORTED	LOCATION
SPC	Fibercast	Pip	1,310,927	39	Sand Springs, OK
SPC	Fiberglass Resources	Pip	1,191,797	36	Farmingdale, NY
SPC	Fisher	ConSys	4,080,000	122	Marshalltown, IA
SPC	FNC	Misc	4,020,647	121	Bennockburn, IL
SPC	FNC/Material Hndlg	Mech	469,156	14	Colmar, PA
SPC	Frazier Industries	Mech	303,388	9	San Rafael, CA
SPC	Fruehauf Division	Misc	300,686	9	Los Angeles, CA
SPC	Gen. Trans. & Equip.	Misc	788,634	24	Roslyn Heights, NY
SPC	General Electric	Misc	283,000	8	Fitchburg, MA
SPC	General Electric Supply	Elect	117,000	4	El Monte, CA
SPC	General Ind. Tool	Misc	1,018,261	31	No. Hollywood, CA
SPC	General Welding	Vess	427,340	13	Houston, TX
SPC	George Warner	Misc	81,768	2	New York, NY
SPC	Gordon Engineering	Mech	908,000	27	Belleville, NJ
SPC	Goulds Pump	Mech	2,964,000	89	Seneca Falls, NY
SPC	Graham Mfg.	Mech	1,487,000	45	Glendale, CA
SPC	Grant Supply	Pip	232,000	7	Buena Park, CA
SPC	Graybar	Elect	1,982,000	39	Gardena, CA
SPC	Gulf Alloy	Pip	743,420	22	Houston, TX
SPC	Gulf International	Pip	51,400	2	Houston, TX
SPC	Gulf Supply Co.	ConSys	45,830	1	Houston, TX
SPC	Gulf Welding Equip.	Misc	840,233	25	Hattiesburg, MS
SPC	Guyon Alloys	Pip	138,000	4	Houston, TX
SPC	Maloy Ind. Supply	Pip	17,327	1	Houston, TX
SPC	Harold Dessau	Misc	508,186	15	Houston, TX
SPC	Harvey Hubbell	Elect	77,000	2	Santa Ana, CA
SPC	Heat Engineering	Mech	131,466	4	El Monte, CA
SPC	Heyl & Patterson	Mech	74,926	2	Pittsburgh, PA
SPC	Hi-Way Equipment Co.	Misc	181,049	5	Houston, TX
SPC	Moneywell	ConSys	5,897,000	177	Phoenix, AZ
SPC	Hydraulic Research	Mech	585,568	18	Charlotte, NC
SPC	Ingersoll-Rand	Misc	904,926	27	Painted Post, NY
SPC	Ingersoll-Rand	Misc	231,780	7	Los Angeles, CA
SPC	J. Arthur Moore Co.	Pip	408,000	12	Pasadena, CA
SPC	Jay Tech Int'l	Mech	755,559	23	Los Altos, CA
SPC	Jerguson/J.A. Moore	ConSys	50,010	2	Pasadena, CA
SPC	John Zink	Mech	182,411	5	Tulsa, OK
SPC	John-Manville	Struct	40,125	1	Denver, CO
SPC	Joy Manufacture	Mech	1,002,000	30	Schaumburg, IL
SPC	Kahn/Robert Burns	Mech	354,900	11	Wethersfield, CT
SPC	Kaner Co.	Misc	183,000	5	Los Angeles, CA
SPC	Keenan Supply	Pip	63,700	2	Carson, CA
SPC	Kendall/Polyken Div.	Misc	126,744	4	Boston, MA
SPC	Kinnear	Struct	40,790	1	Paramount, CA
SPC	Koch Engineering	Vess	880,270	26	Akron, OH
SPC	Lubrication System	Mech	365,549	11	Carson, CA
SPC	M.B.W., Inc.	Misc	175,513	5	Slinger, WI
SPC	Manitou Equip. Corp.	Misc	6,814,000	204	La Mirada, CA
SPC	Marine Lumber Co.	Misc	225,000	7	Houston, TX
SPC	Masonilan	ConSys	181,000	5	Norwood, MA
SPC	Master Tank	Vess	416,082	12	Houston, TX

8/26/82

U.S. VENDORS
SAUDI PETROCHEMICAL

PROJECT	VENDOR NAME	COMMODITY	ORDER IN \$	NO. OF JOBS SUP- PORTED	LOCATION
SPC	Master Tank & Weld	Vess	423,490	13	Dallas, TX
SPC	McGraw Edison	Elect	349,249	10	Cannonsburg, PA
SPC	McKenna Engraving	Misc	86,724	3	Torrance, CA
SPC	Metropolitan Supply	ConSys	465,396	14	Montebello, CA
SPC	Milton Roy	Mech	340,170	10	St. Petersburg, FL
SPC	Morgan Equipment	Misc	46,713	1	Mirada, CA
SPC	Nelson Electric	Misc	480,000	14	Okla, OK
SPC	Nooter Corp.	Mech	2,848,000	85	St. Louis, MO
SPC	Nunn Royal	Elect	236,402	7	Carson, CA
SPC	OHM International	Elect	94,604	3	Northorne, CA
SPC	Original Parts Supply	Misc	46,471	1	Buena Park, CA
SPC	Owens Corning Fbrgls.	Struct	75,110	2	Orange, CA
SPC	Peabody Dole	Pip	20,438	1	Houston, TX
SPC	Peerless	Mech	28,521	1	Dallas, TX
SPC	Peerless Pump	Mech	118,048	4	Montebello, CA
SPC	Petro Chem	Mech	1,936,433	58	New York, NY
SPC	Philadelphia Mixer	Mech	103,862	3	Philadelphia, PA
SPC	Potter Roemer	Pip	14,764	-	Los Angeles, CA
SPC	R. G. Arnold	Struct	53,188	2	Redondo Beach, CA
SPC	R. M. Alexander	Mech	46,644	1	Los Angeles, CA
SPC	R. W. Holland	Mech	75,400	2	Indianapolis, IN
SPC	R&G Sloane Mfg.	Struct	20,022	1	Sun Valley, CA
SPC	Ray Chem	Elect	168,000	5	Menlo Park, CA
SPC	Raymond Corp.	Mech	166,978	5	Santa Fe Springs, CA
SPC	Republic Steel Corp.	Struct	34,498	1	Cleveland, OH
SPC	Republic Supply	Pip	116,900	4	Compton, CA
SPC	Rockwell/Flow Control	Pip	91,800	3	Orange, CA
SPC	Ronan	ConSys	219,000	7	Chatsworth, CA
SPC	Rosemount	ConSys	330,519	10	Eden Prairie, MN
SPC	Rotec Industries	Misc	220,803	7	Elmhurst, IL
SPC	Rotoflow	Mech	751,309	23	Santa Monica, CA
SPC	Ryan Herco	Pip	116,950	4	Burbank, CA
SPC	S.E.C.A. Industries	Misc	348,176	10	Roslyn Heights, NY
SPC	Schwing America	Misc	400,375	12	White Bear, MN
SPC	Selas Corp.	Mech	4,643,000	139	Dresher, PA
SPC	Seward International	Mech	20,026	1	Falls Church, VA
SPC	So. Cal. Instrument	ConSys	69,200	2	Irvine, CA
SPC	Stang Hydronics	Misc	222,310	7	Orange, CA
SPC	Sunstrand	Mech	833,600	25	Los Angeles, CA
SPC	Swenson Duriron	Mech	20,700,686	621	Harvey, IL
SPC	T. J. Cope	Elect	1,220,000	37	Glendora, CA
SPC	Tate Architect	Struct	17,303	1	Jessup, MD
SPC	Temp Flex	Pip	60,901	2	Compton, CA
SPC	Texas Nuclear	Misc	84,561	3	Carson, CA
SPC	TFI Materials, Inc.	Elect	660,185	20	Garden Grove, CA
SPC	Treco, Inc.	Misc	265,414	8	Houston, TX
SPC	Tritten Mefarland	Misc	156,012	5	Houston, TX
SPC	Tuflin Div./Xomox	Pip	1,089,000	33	Cincinnati, OH
SPC	Turbodyne	Mech	7,462,000	224	Wellsville, NY
SPC	Turtle & Hughes	Elect	158,500	5	Linden, NJ
SPC	Tyler Dawson	Pip	25,571	1	Houston, TX

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U.S. VENDORS
SAUDI PETROCHEMICAL

<u>PROJECT</u>	<u>VENDOR NAME</u>	<u>COMMODITY</u>	<u>ORDER IN \$</u>	<u>NO. OF JOBS SUP- PORTED</u>	<u>LOCATION</u>
SPC	U.S. Gypsum	Struct	44,111	1	Chicago, IL
SPC	Union Carbide	Vess	2,114,200	63	Moorestown, NJ
SPC	Union Carbide	Mech	544,825	16	Long Beach, CA
SPC	United Centrifugal Pump	Mech	74,502	2	San Jose, CA
SPC	Wallace & Tiernam	Mech	174,801	5	Belleville, NJ
SPC	Western Supply	Mech	42,950	1	Tulsa, OK
SPC	Westinghouse Elect.	Elect	872,000	26	South Boston, VA
SPC	Worthington	Mech	683,628	21	Wellsville, PA
SPC	Wright Anderson	Mech	7,794	-	City of Comm., CA
SPC	Yeary & Associates	Pip	95,000	3	Costa Mesa, CA
SPC	Zurn	Mech	65,994	2	Erie, PA

APPENDIX F

VENEZUELAN OIL REFINERY EXPANSION

In 1978, Lagoven, a subsidiary of Venezuela's state owned oil company, awarded Fluor a contract to upgrade Venezuela's Amuay refinery. The project, valued at \$600 million, included procurement of equipment and materials, engineering services and field construction of the major facilities.

Equipment and materials procured in the U.S., to date, have totalled over \$100 million. Based on the Census Bureau's estimate that \$1 billion in exports supports at least 30,000 jobs in the U.S., approximately 3,000 American jobs were supported by this project. A major portion of the design and engineering services have been performed in Fluor's Irvine, California office, thus supporting jobs for many American engineers. Additionally, Americans have been stationed at the jobsite in Venezuela to oversee the field construction work.

Orders for the equipment and materials went to more than 100 different vendors in over twenty states, as shown on the map in Exhibit I. Many small and medium sized companies, as well as the large suppliers, benefited from this project. A sample of the types of companies which received orders follows and a list of the vendors is attached as Exhibit II.

- Wilson Steel Products, Memphis, Tennessee, was awarded a \$1.25 million contract, worth 38 jobs to its employees. Wilson is a subsidiary of Chicago Rivet and Machine Co. of Belwood, Illinois, which is a manufacturer of tubular and split rivets, automatic feed riveters and brake relining machines. Chicago Rivet and Machine (including Wilson) employed 954 people and had sales of \$37 million in 1979.

- General Refractories Co. of Bala Cynnyd, Pennsylvania is a manufacturer of refractory products, which include heat-resistant clay and basic mineral products used for lining facilities where high temperatures are required. The company also mines, processes and sells perlite and diatomite in forms used as filtering substances, fillers and building materials. General Refractories' order of \$1.1 million supported 32 jobs for its 7,600 employees.

- Chicago Bridge and Iron of Oak Brook, Illinois is the main subsidiary of CBI Industries which designs, fabricates and erects metal plate structures and related systems used primarily in the generation of nuclear and hydroelectric power, and in the storage, transportation and processing of liquefied gases, petroleum and petrochemical products. Chicago Bridge and Iron was awarded a \$2.7 million order which supported 80 jobs for its employees.

- Louisiana Pacific Corporation, Portland, Oregon received an order of \$250 thousand, worth eight jobs to its employees. The company is a grower of many varieties of trees, which it harvests and converts into products, including lumber, particleboard, hardboard, veneers, plywood, pulps and chips. Louisiana Pacific had sales of \$1.3 million in 1979.

- Ohmart Corp. of Cincinnati, Ohio is a manufacturer of nuclear gauging equipment and control systems for the process industries. Ohmart had sales of \$6.6 million in 1979. The company's order of \$98 thousand supported three jobs.

- Eagle Pitcher, Cincinnati, Ohio, received a \$317 thousand contract, backing ten jobs for its employees. Eagle Pitcher is a manufacturer of a wide variety of specialized industrial equipment and machinery, including basic materials for internal manufacturing such as concrete pipe products, lead chemical, industrial insulations, protective coatings, metal preparation and finishing machinery, and can clean machinery. The company had sales of \$120 million in 1979 and employed over 10,000 people.

- Childers Manufacturing Co. of Cleveland, Ohio, a subsidiary of Overhead Door Corp. of Dallas, Texas, was awarded a \$1.1 million order, supporting 32 jobs. Overhead Door Corp. is a manufacturer of upward-acting sectional doors, rolling steel curtains and fire doors, electrical door operators and radio controls for door openers. With sales of \$262 million Overhead (including Childers) employed 4,600 people.

- Graham Manufacturing Co. of Great Neck, New York, received a \$1.6 million order, backing 47 jobs for its 880 employees. Graham is engaged in the development, design, manufacture and sale of equipment for vacuum pumping, for cooling and condensing vapors and for exchanging heat between liquids and gases. The products are designed primarily for the petroleum, chemical, petrochemical, paper and other processing industries. Graham had sales of \$39 million in 1979.

- Ethyl Corporation of Richmond, Virginia is a manufacturer of plastic molded products, PVC resins and compounds, and various metal products. The company had sales

of \$1.7 billion in 1979 and employed 16,000 people. Ethyl was awarded a \$114 thousand order for this project, supporting three jobs for its employees.

● Allis-Chalmers Corporation, headquartered in Wilmington, Delaware, is a highly diversified multinational manufacturer of capital and consumer goods. The company specializes in designing and manufacturing machinery to meet basic worldwide needs for energy, food, environmental air, water and minerals. Allis-Chalmers manufactures and markets products for use in the processing of fluids and solids, agriculture, handling and improving the quality of environmental air, material handling, lawn and grounds maintenance and snow removal. Allis-Chalmers has operating facilities in over ten states and employed 30,000 people worldwide in 1979. The company and its subsidiaries were awarded orders totalling \$1.6 million for this project, supporting 46 jobs for its American employees in New York and Georgia.

Approximately \$70 million in additional equipment and materials was imported from countries other than the United States, in large part because the Export-Import Bank of the United States (Eximbank) did not offer any competitive financing assistance for this project. These additional exports could have supported 2,100 more jobs for Americans.

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Exhibit II
U.S. VENDORS
LAGOVEN

<u>PROJECT</u>	<u>VENDOR NAME</u>	<u>COMMODITY</u>	<u>ORDER IN \$</u>	<u>NO. OF JOBS SUP- PORTED</u>	<u>LOCATION</u>
LVEN	A. Bierdman	ConSys	120,000	4	Houston, TX
LVEN	Ace Crane	Mech	257,723	8	Cudahy, CA
LVEN	Air Products	Mech	1,558,000	47	Greenville, PA
LVEN	All State	Struct	102,733	3	Houston, TX
LVEN	Allis Chalmers	Mech	1,382,000	41	Milwaukee, WI
LVEN	APCO Valve	Pip	319,000	10	Schaumburg, IL
LVEN	Associated	Elect	918,000	28	Los Angeles, CA
LVEN	Baresel Co.	Struct	204,000	6	Norwalk, CA
LVEN	Beaumont	Struct	1,769,000	53	Beaumont, TX
LVEN	Bingham Williamette	Mech	580,000	17	Portland, OR
LVEN	Bogart Bullock	Pip	683,000	20	Pasadena, CA
LVEN	Butane Tank	Vess	69,000	2	Los Angeles, CA
LVEN	Byron Jackson	Mech	3,700,000	111	Los Angeles, CA
LVEN	Central Texas Iron	Struct	467,000	14	Waco, TX
LVEN	Chicago Bridge & Iron	Mech	2,662,400	80	Oak Brook, IL
LVEN	Childers	Misc	1,069,000	32	Cleveland, OH
LVEN	Com-Struct	Struct	355,000	11	Sacramento, CA
LVEN	Comsip	Elect	280,000	8	Houston, TX
LVEN	Comsip	ConSys	248,000	7	Lindin, NJ
LVEN	Consumer	Pip	155,000	5	Los Angeles, CA
LVEN	Dally Engineering	Pip	755,000	23	Pittsburgh, PA
LVEN	Dresser Clark	Mech	1,337,000	41	Olean, NY
LVEN	Dresser Industries	ConSys	603,000	18	Stratford, CT
LVEN	Eagle Pitcher	Misc	317,000	10	Cincinnati, OH
LVEN	Elliott	Mech	3,037,000	91	Jeanette, PA
LVEN	Enpro System	Mech	246,000	7	Lebanon, NJ
LVEN	Envirex	Mech	477,000	14	Waukesha, WI
LVEN	Environmental	Mech	300,000	9	Houston, TX
LVEN	Ethyl	Mech	114,000	3	Richmond, VA
LVEN	F&S Central	Pip	315,000	9	Brooklyn, NY
LVEN	Fenestra	Struct	56,000	2	Erie, PA
LVEN	Fisher Controls	ConSys	3,600,000	108	Marshalltown, IA
LVEN	FMC	Mech	529,000	9	Chicago, IL
LVEN	Foxboro	ConSys	4,664,000	140	Foxboro, MA
LVEN	Fresno Steel	Struct	1,156,000	35	Fresno, TX
LVEN	General Electric	Mech	10,300,000	309	Schnectady, NY
LVEN	General Electric	Elect	2,320,000	70	Schnectady, NY
LVEN	General Refractory	Vess	1,051,000	32	Bala Cynwyd, PA
LVEN	Gould	Mech	610,000	18	Seneca Falls, NY
LVEN	Graham	Mech	1,565,000	47	Great Neck, NY
LVEN	Graham Manufacturing	Mech	58,000	2	Batavia, NY
LVEN	Grant	ConSys	103,000	3	Buena Park, CA
LVEN	Graybar Electric	Elect	1,503,000	45	Gardena, CA
LVEN	Gregg	Struct	225,000	7	Houston, TX
LVEN	Gulf Consolidated	Pip	883,000	26	Houston, TX
LVEN	Hotwork	Vess	194,000	4	Lexington, KY
LVEN	Hudson	Mech	1,354,000	41	Houston, TX
LVEN	Hughes Anderson	Mech	838,000	25	Tulsa, OK
LVEN	Ingersoll-Rand	Mech	2,480,000	74	Painted Post, NY
LVEN	Jamesbury	ConSys	233,000	7	Worcester, MA
LVEN	Jerguson	ConSys	247,000	7	Pasadena, CA

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U.S. VENDORS
LAGOVEN

<u>PROJECT</u>	<u>VENDOR NAME</u>	<u>COMMODITY</u>	<u>ORDER IN \$</u>	<u>NO. OF JOBS SUP- PORTED</u>	<u>LOCATION</u>
LVEN	John Zink	Mech	166,000	5	Tulsa, OK
LVEN	Kaiser	Vess	673,000	20	Napa, CA
LVEN	Kinetics	Mech	1,550,000	47	Trenton, NJ
LVEN	KTI	Mech	2,102,000	63	Pasadena, CA
LVEN	L. B. Foster	Struct	296,000	9	Houston, TX
LVEN	Louisiana Pacific	Misc	250,000	8	Portland, OR
LVEN	Lubrication System	Mech	105,000	3	Houston, TX
LVEN	Lummus	Mech	1,445,000	43	Bloomfield, NJ
LVEN	Mack Iron	Pip	282,000	8	Sandusky, OH
LVEN	Masoneilan	ConSys	425,000	13	Norwood, MA
LVEN	Master Tank	Vess	340,000	10	Dallas, TX
LVEN	McJunkin	Pip	151,000	5	Charleston, WV
LVEN	McMillan	Struct	103,000	3	Bridgeport, CT
LVEN	Milton Roy	Mech	190,000	6	Ivyland, PA
LVEN	Montgomery Elevator	Mech	336,510	10	Moline, IL
LVEN	Motorola	Elect	474,000	14	Schaumburg, IL
LVEN	Mueller Strainers	Pip	194,000	6	Lumberton, NC
LVEN	Norton	Vess	111,000	3	Akron, OH
LVEN	Nunn Royal	Elect	1,089,000	33	Carson, CA
LVEN	Ohmart	ConSys	97,800	3	Cincinnati, OH
LVEN	Overly Mfg.	Struct	123,000	4	Greensburg, PA
LVEN	Pacific Pumps	Mech	263,000	8	Los Angeles, CA
LVEN	Power Engineering	Pip	387,000	12	Torrance, CA
LVEN	Power Piping	Pip	123,000	4	Pittsburgh, PA
LVEN	Premetco	Misc	142,700	4	Houston, TX
LVEN	Pulsafeeder	Mech	64,000	2	Rochester, NY
LVEN	Purafil Industries	Struct	127,000	4	Atlanta, GA
LVEN	Ribbon Tec	Vess	427,000	13	Winchester, OH
LVEN	Ronan Engineering	ConSys	128,000	4	Chatsworth, CA
LVEN	Rosemount	ConSys	626,000	19	Eden Prairie, MN
LVEN	Shell & Tube	Mech	433,000	13	Tulsa, OK
LVEN	Siemens Allis	Mech	170,000	5	Atlanta, GA
LVEN	Smith Valve	Pip	981,000	29	Westboro, MA
LVEN	Smithco	Mech	144,000	4	Tulsa, OK
LVEN	Stang Hydraulics	Pip	141,000	4	Orange, CA
LVEN	Sunstrand	Mech	585,000	18	Arvada, CO
LVEN	Texas Pipe Bending	Pip	13,948,000	418	Houston, TX
LVEN	Thermo Electric	Elect	575,000	17	Saddle Brook, NJ
LVEN	Thermocouple	ConSys	263,000	8	Winfield, IL
LVEN	Tube Turns	Pip	120,000	4	Louisville, Ky
LVEN	Tyler Dawson	Pip	432,000	13	Houston, TX
LVEN	U.S. Bellow	Pip	270,000	8	Houston, TX
LVEN	U.S. Equipment	Mech	141,000	4	Los Angeles, CA
LVEN	U.S. Steel	Struct	440,000	13	Fresno, CA
LVEN	Union Carbide	Vess	88,700	3	Kokomo, IN
LVEN	Union Pump	Mech	80,000	2	Battle Creek, MI
LVEN	United Centrifugal Pump	Mech	1,648,000	49	San Jose, CA
LVEN	United Controls	ConSys	2,900,000	87	Santa Fe Springs, CA
LVEN	Vaughan	Struct	88,000	3	San Antonio, TX
LVEN	Vibration Isolator Prod.	Mech	256,000	8	San Fernando, CA
LVEN	Western Supply	Mech	237,000	7	Tulsa, OK

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U.S. VENDORS
LAGOVEN

<u>PROJECT</u>	<u>VENDOR NAME</u>	<u>COMMODITY</u>	<u>ORDER IN \$</u>	NO. OF JOBS SUP- <u>PORTED</u>	<u>LOCATION</u>
LVEN	Westinghouse	Elect	1,321,000	40	South Boston, VA
LVEN	Wilson Steel Products	Vess	1,250,000	38	Memphis, TN
LVEN	Worthington	Mech	870,000	26	Hairston, NJ
LVEN	Yeary & Associates	Pip	583,000	17	Costa Mesa, CA
LVEN	Yeary & Associates	ConSys	466,680	14	Costa Mesa, CA
LVEN	York	Struct	590,400	18	Fairfield, NY

Senator HEINZ. Thank you, Mr. Trammell.

Let me just say that—of course, your entire statement will be put in the record. I've had a chance to review it. It is a truly informative statement. It is a compendium of terribly valuable facts, figures, and analysis.

We are deeply grateful to you, to the National Constructors Association in particular, for all the work that must have gone into this. And it will be extremely useful to the committee—subcommittee and the committee both.

Mr. Best.

**STATEMENT OF ROBERT BEST, EXECUTIVE VICE PRESIDENT,
AMERICAN LEAGUE FOR EXPORTS AND SECURITY ASSISTANCE**

Mr. BEST. Thank you, Mr. Chairman.

I'm here on behalf of the ALESA organization and its 41 export-oriented companies and 4 unions.

I've submitted a full statement and a summary thereof for the record. In addition, there are two letters from two major AFL-CIO affiliates that I would ask be included in the record after my statement as well as a letter from Mr. Joe Sampson, chairman of the board of Harsco Corp.

Senator HEINZ. Without objection, so ordered.

Mr. BEST. Both of those letters from the unions support the provisions of S. 2600.

Now, Mr. Chairman, the Republican platform provided a clarion call for an aggressive, positive export policy. It was a call that the export community in this country could really march to. I'd just like to take a minute to read two paragraphs from that platform:

TIME TO REMEDY OUR OWN CRISIS

The Republican Party believes that the United States must adapt an aggressive export policy. For too long, our trade policy has been geared toward helping our foreign trading partners. Now, we have to put the United States back on the world export map. We helped pull other countries out of the post-World War II economic chaos; It is now time to remedy our own crisis. Trade, especially exporting, must be high on our list of national priorities. The Republicans will put it there and will promote trade to ensure the long-term health of the U.S. economy.

Exports can play a key role in strengthening the U.S. economy, creating jobs and improving our standard of living. A \$15 billion increase in exports can increase employment by one million, the gross national product by \$37 billion per year, and private investment by \$4 billion per year. Nevertheless, the Carter administration has placed exporting at the bottom of its priority list. The present administration's trade policies lack coordination, cohesiveness, and true commitment to improving our export performance. Rather than helping create strong exporters in the United States and thereby create more jobs for Americans, the Carter administration's trade policies have discouraged traders. At best, the administration has adapted a passive approach to trade, merely reacting to changing world economies, rather than actively seeking to promote the global structure that best addresses America's needs. As a result, we lag seriously behind our foreign competitors in trade performance and economic strength. *Export promotion will be a central objective of international economic policy in a Republican administration.* [Emphasis supplied.]

This is a very clear, unambiguous statement, I think, that we strongly support.

But, it appears to me—and I'm speaking personally—that Senator John Heinz and your colleagues are trying to implement a Republican platform statement, while Mr. Stockman and perhaps some monetarists in the Treasury are, in fact, pursuing the same

policies that the Carter administration followed, namely denigrating exports and the role of exports in the American economy.

One wonders whether the technocrats at OMB and the monetarists at Treasury ever read the platform which I just read. If they did, why would they be pushing unilateral cuts in the Eximbank lending authority? And now we hear unilateral elimination of the DISC program. Why would they not strongly take your initiative to eliminate some of the obstacles to exports that that you drafted in S. 2600?

I really believe that Secretaries Shultz, Baldrige, and Ambassador Brock fully understand the role of exports in our economy and the vital role that the Export-Import Bank plays in financing those exports.

Yet, the key decisions in this area are made in OMB and the Treasury Department. If they were true supply-siders— and I think the true supply-siders are in Tokyo—they would be promoting exports and every tool at their disposal to encourage exports.

Mr. Chairman, I have tried to indicate in my full statement, and in the summary thereof, the reasons why exports are vital to the economy and what role the Eximbank necessarily plays in supporting American exports.

I would like to address a few of the specific issues in your bill.

The budget treatment that Eximbank now receives is really a charade. Even though the agency does not receive a dime in appropriate funds, six full committees and probably as many subcommittees debate over lending and guarantee limits which will eventually go into a unified budget. Ultimately these limits are put into a foreign aid function, like they are a welfare program for the rich. That's a farce. Here's an institution that operates like a bank, and it's treated like it's a welfare agency.

I'm really kind of surprised that Mr. Draper, apparently marching to the orders of OMB, believes this annual budgetary exercise makes any sense at all.

Section 3 of your bill, Mr. Chairman, is an important step toward rationalizing the budget process for Eximbank. In fact, we believe it's the key element of the bill.

Next, let me address the independence of the bank. We firmly believe the Bank should be independent of politics. It should be a bank that consistently supports the need for American exports.

If Mr. Draper's logic of making the Bank a tool of any administration were to be carried out to its logical conclusion, then the Chairman of the Eximbank ought to be Mr. Bill Brock, who, after all, is the man who sets U.S. trade policy and is the President's chief negotiator on trade policy.

I've already discussed the budgetary thing. I'll briefly touch on the war chest.

WAR CHEST TO PREVENT PREDATORY FINANCING

The war chest, to us, is a deterrent, and it's a deterrent that's needed to prevent other countries from engaging in the kind of predatory financing that captures markets. There are not enforcement provisions in the OECD agreement that we know of. The agreement does not even touch the issue of mixed credits. How in

the world is it going to be enforced if the executive branch has no tools to enforce it?

So, we view the war chest as a deterrent. The administration is not at all timid about talking about the need for a deterrent in the military area, which we support. But why not a deterrent in the economic area? If we're losing markets and jobs and we're not willing to put something behind the agreements that we negotiate, we hardly feel that the agreements will be effective.

I think that covers the thrust of my statement, Mr. Chairman. Rather than taking any more time, I will defer to the other witnesses.

[The complete statement and letters follow:]

STATEMENT OF
ROBERT A BEST

EXECUTIVE VICE PRESIDENT

AMERICAN LEAGUE FOR EXPORTS AND SECURITY ASSISTANCE, INC.

Mr. Chairman, Members of this Subcommittee.

We are delighted to testify on the Eximbank legislation pending before this Subcommittee. Our organization -- the American League for Exports and Security Assistance, Inc. -- represents 41 corporations and four unions, all committed to a common goal -- increasing exports and jobs created by exports. These corporations employ some 800,000 Americans in all 50 states and the unions have over 4 million dues-paying members.

Exim Bank and the Budget

Mr. Chairman, we support the provisions of S. 2600. Of particular importance to the exporting community and we think to sound budgetary principles is section 3 of the bill which would provide that the net lending outlays of the Bank would no longer be carried on the Federal expenditure budget. Program levels would still have to go through the appropriations process, as would the budget for administrative expenses. Borrowing by the Bank would still be subject to the debt ceiling, and it would be carried on the Federal Credit Budget. Congress would still have to renew periodically the authority for the Bank to exist. Congressional notification for all nuclear projects and loans of \$100+ million would still be required. And borrowings by the Bank would still be subject to approval by Treasury's Debt Management section.

The issue is whether Eximbank's loans should be treated the same as expenditures. Under current budget treatment, the Bank's loan outlays contribute to Federal expenditure totals the same as if they were outright grants. Yet, they are loans that are paid back with interest, with 99.98 per cent of all Eximbank loans recovered to date. No money is actually ever appropriated to the Bank. Instead, it has returned more than \$1 billion to the Treasury, even while increasing its capitalization by \$2 billion.

The current budget treatment is a gross distortion. In a year when Eximbank is making a profit and returning dividends to the Treasury, on the budget it is made to look as though it is in the red, for its loans are counted as expenditures, balanced against the repayment of previous loans. If it is expanding, as U. S. exports should be, it will be making more loans than it is collecting. The reasonable reaction would be to want to curb expenditures, especially in a year of austerity, so pressure mounts to curb Eximbank activities, although no budget expenditures are really involved. Thus, Exim lending authority is cut back to reduce a fictitious drain on the Federal budget. The loans of a commercial bank are considered the purchase of assets. Yet, in the case of Eximbank current budget bookkeeping requires that they be listed as debits. This misrepresents the Bank and inflates the Federal deficit.

Annual budget-making procedures coincide very poorly with Eximbank operations, and thwart congressional intent. Congress addresses Eximbank activities in two major ways. First of all, it authorizes limits for the various Eximbank programs. Secondly, it sets a level for net lending outlays (the figure affected by the bill). Under program authority for a given year, commitments are made to industries for export financing. Actual disbursements, then, are made in the course of several years; repayments are also spread out over time. The figure for net-lending-outlays appropriately should reflect the needs in a particular fiscal year, based upon the disbursements to be made under previous authorizations, disbursements projected to begin in the current program authority, and repayments to be received in the current fiscal year based upon a thorough examination of the repayments schedules of all of the loans in the Bank's portfolio. Needless to say, this is never done in determining the net-lending-outlays figure for the budget. Rather, this figure is determined by the exigencies of the current Federal budget and the need to curb real expenditures. Often, the Eximbank's fictitious expenditures are curbed to avoid cutting back in real expenditures elsewhere in the Federal budget. Further, Eximbank's export support is highly leveraged, so that a small cut back in its net-lending outlays has an effect many times larger in terms of exports lost.

Exim Bank pays its own way. Exim operates as a self-sustaining institution by raising money in the U. S. capital markets and has returned more than one billion dollars in dividends to the U. S. Treasury.

Exim has more than trebled its initial capitalization of one billion dollars since organization. It uses this retained capital, loan repayments, interest and fees collected on its loans and guarantees, and borrowings to fund operations. Each year Exim is given authority to borrow the resources necessary to fulfill its commitments. Exim receives no appropriated funds and thus does not compete for scarce budget dollars. Exim seeks loan and guaranty authority only, not direct funding from Congress.

Exim Bank and Exports

The U. S. merchandise trade balance (by year end 1981) has been in deficit for 66 consecutive months. In 1981 the U. S. trade deficit amounted to a staggering \$39.7 billion.

Exim Bank is a critical factor in promoting foreign trade. In FY 1981 Exim's loans, guarantees and insurance supported exports of \$18.6 billion, a 38 per cent increase of FY 1979. The Department of the Treasury found that at least 70 per cent of the exports attributable to Exim Bank would not have occurred without Exim support. Exim helps our international balance of trade, strengthens the dollar, and thus helps ease inflationary pressures.

Exim Bank and Jobs

The Bureau of the Census has estimated that 4.8 million jobs were associated with exports of manufactured goods in the United States in 1980 -- over 30,000 jobs for every \$1 billion of exports. Using Census Bureau's figures, Exim Bank's 1981 operations supported 573,000 American jobs. One in every seven American workers is involved in the production of manufactured goods that are sold abroad. Exim Bank is critically important to these workers.

We honestly believe a careful analysis of the facts lead to the conclusion that unilateral reductions in lending authority of the Eximbank seriously:

- undermine our competitive position
- cause more unemployment
- increase inflation
- worsen our balance of trade position
- undermine any possibility of reaching an effective international agreement on export financing terms
- worsen the Federal deficit.

Chairman Draper's concluding paragraph in his statement in the Bank's fiscal 1981 report appears to reflect a real understanding of the role of the Bank in financing exports. He states:

"The time is past when American companies can limit their sales to the domestic market, and the time may never come when they can rely on the private sector to meet all of their needs for competitive export financing. The Export-Import Bank has provided essential financing assistance to American exporters for nearly five decades. From its inception, the Bank was given the flexibility to help American companies export during periods of prosperity and recession, peace and war. Certainly for the foreseeable future, we will continue to play a vital role. We will take those risks which are the legitimate responsibility of the government; and, until we achieve our ultimate objective of free trade, Eximbank will be aggressive in those competitive situations where our involvement means winning an order for an American exporter and keeping American workers on the job."

Having said that one wonders why the Administration and Bank do not support provisions which are designed to assist the Bank in being "aggressive in those competitive situations where our involvement means winning an order for an American exporter and keeping American workers on the job."

Does the Bank support the current "appropriations process" under which six legislative Committees* in both Houses of Congress annually set lending limits even though the Bank, as stated clearly in its own report, "does not receive any appropriated funds"? Isn't it time to establish a more rational approach to the "off-budget financing" or "crowding out" concerns that prompted including this agency in the Federal budget. We do not believe that an institution which, under any fair cost-benefit analysis, has been a strongly positive force in the U. S. economy should be treated as if it were a foreign aid "giveaway" program.

Competitive Realities

The United States faces fierce competition from European and Japanese producers in almost every sector, including high technology sectors. Their products are fine quality. On large ticket items -- aircraft, heavy machinery, construction equipment, the credit terms are often the determining factor in who makes the sale. Foreign credit institutions are generally far more generous than the Eximbank. At the end of 1979, the latest full year in which data are available, Japanese MITI had export supporting policies outstanding of \$460 billion; Hermes of Germany \$42 billion and the U. S. Export-Import Bank, \$10 billion. This explains in large part why the Japanese had a trade surplus in manufactured goods of \$72 billion of 1979, Germany \$59.2 billion, while the U. S. had a deficit of \$2.1 billion. These data and the comparative export business financed by various export credit institutions are shown in Table 1 of the appendix.

There has been much publicity that the Bank is "owned" so to speak by a few major export oriented companies in the aerospace industry. This is misleading. It is misleading in that, over the history of the Bank, commitments have been made to over 9,000 suppliers in all 50 states. A review of these commitments suggest that small and large export oriented companies in all 50 states have received vital export financing from the Bank. Also, as representatives from the aerospace industry have pointed out, an airplane such as a Boeing 747 is not made exclusively in Seattle. There are thousands of suppliers and subcontractors spread across the land for each of these aircraft. Thus, if we lose an aircraft sale because of noncompetitive or inadequate export financing it means lost jobs all over America, not just in Seattle.

*The Budget, Banking, and Appropriations Committees.

Another assumption we seriously question is that if Eximbank direct loans are cut, the private banking institutions would pick up the slack and (a) the sale would be made anyway; and (b) we would benefit our budget. Increasingly, the availability of favorable financing has become a key element in making an export sale of major capital equipment. Under today's high interest rates in the private sector, concessionary financing is more vital than ever. Many of our international trading competitors, notably the French, Germans, British, and Japanese are aggressively providing concessionary financing assistance to their exporters despite the intention of reducing and eliminating such subsidies which formed the basis for the Tokyo Round GATT negotiations and the OECD export credit Arrangement. In 1980 official government support was behind 39 per cent of Japanese exports, 35 per cent of British, 34 per cent of French, while only 18 per cent of U. S. exports received official support. Today, in the direct loan program the Bank is only mildly competitive with its world counterparts which almost universally provide 85 percent loan cover after a 15 per cent cash payment and at interest rates of 10 per cent for developing countries, 11 per cent for intermediate, and 12.4 for developed countries. Eximbank interest rates have been generally higher for "intermediate" and "developing" countries with much lower cover provided. The GAO study on the Export-Import Bank discusses in detail the constraints which prevent the Eximbank from consistently offering competitive financing for U. S. exports.

Mr. Chairman, we recently surveyed our members on the impact of various export incentives and disincentives. The responses of both large, medium and smaller exporters indicate that the following export disincentives have a serious impact on exports and jobs.

Inadequate credit facilities. Virtually all the respondents indicate that the lack of available financing on competitive terms has resulted in substantial losses of overseas sales. The Europeans and Japanese are able to offer complete financing on much more favorable terms than the U. S. manufacturers on both military and commercial equipment. As a result, many developing nations, already burdened by heavy external debt, are turning to Europe and Japan for their capital goods requirements. The inadequate credit availability cases, cited below, apply to both high technology civilian and military products in which the U. S. is highly competitive.

Examples:

- A. From a Small Business Exporter: "Eximbank's fixed rate financing is 13%-15%. Its counterparts in the U.K., Germany, France and Japan offer fixed rate financing at 8-10% and for a period of time longer than Eximbank.

This year, Columbia, Peru, and Ecuador requested payment terms from us of between 7 and 10 years at a fixed rate of 10%. We could not comply and will lose a substantial amount of business this year."

- B. From a Small Business Exporter: "We cannot compete on the international markets with firms which can obtain government-backed loans at much lower rates than can be obtained through U. S. banks (typical recent experience 7 3/4%, 20 year, 5 year guaranteed period). In some cases, such as Brazil and Peru, availability of credit is almost nonexistent through U. S. commercial channels. We recently lost a \$12 million contract in Brazil based solely on financing. This contract is the first in a series of three over the next five years for at least the same amount. We have been told that for an upcoming procurement in Peru, where we face the same competition as in Brazil, there can be no contract unless we furnish a complete financing package. Our outlook is not optimistic."
- C. From a Medium-Large sized Company: "\$500 million to sales to Portugal and Thailand at stake due to inadequate credit facilities. Both countries import to U. S. security interests."

Among the U. S. export incentives in place, respondents to our questionnaire indicated that DISC and the Export-Import Bank were extremely important to their export efforts. Many indicated, however, that recent cutbacks in the Export-Import Bank and the curtailment in the DISC program had made these incentives less useful than they had been in the past. The unilateral cutbacks in Export Bank financing have placed the U. S. aircraft and capital goods industries at a distinct disadvantage vis a vis European and Japanese competition.

"Additionality" of U. S. Exim programs, especially direct lending, is very high; e.g., sales which would have gone to foreign suppliers if Eximbank had not provided financing assistance. This was confirmed by a January, 1980 Treasury Department study, which concluded that, in FY 1978, Exim's "additionality" on lending programs was over 70 per cent.

If the ultimate aim of the Administration is, as it appears to be, to phase out the government's role in export financing, it should be aware that the result (which all the market economics or competitive "supply side" theories in the world will not prevent) will inevitably be the loss of billions of dollars of U. S. export sales as well as the loss of thousands of American jobs.

Unless these jobs can be quickly absorbed in other sectors of the economy, the government will have less revenue, greater expenditures for unemployment compensation and higher budget deficits, the very opposite of the intended goal.

Thus, we really believe the Administration is unintentionally hurting its own cause by sharp unilateral cuts in Export-Import Bank lending authority.

We believe that those in the Administration who have had business experience, such as Secretaries Shultz, Baldrige, and Ambassador Brock, not only understand and appreciate the role of exports in our economy but also the importance of maintaining a competitive export financing institution. Unfortunately, however, it appears that the decisions on Eximbank's issues are made by the OMB Director who does not appear to have such an understanding of the importance of exports to the U. S. economy.

In the final analysis, however, we believe that the Administration will come to realize that the words in the Republican Platform were not empty rhetoric but were based on hard realities. We could not make the case for exports any better than by repeating the following Platform statement on International Trade and Economic Policy:

Republican Platform Statement on International Trade
and Economic Policy

The Republican Party believes the United States must adopt an aggressive export policy. For too long, our trade policy has been geared toward helping our foreign trading partners. Now, we have to put the United States back on the world export map. We helped pull other countries out of the post-World War II economic chaos; it is time to remedy our own crisis. Trade, especially exporting, must be high on our list of national priorities. The Republicans will put it there and will promote trade to ensure the long-term health of the U.S. economy.

Exports can play a key role in strengthening the U.S. economy, creating jobs and improving our standard of living. A \$15 billion increase in exports can increase employment by 1,000,000, the Gross National Product by \$37 billion per year, and private investment by \$4 billion per year. Nevertheless, the Carter Administration has placed exporting at the bottom of its priority list. The present Administration's trade policies lack coordination, cohesiveness, and true commitment to improving our export performance. Rather than helping to create strong exporters in the United States and thereby create more jobs for Americans, the Carter Administration's trade policies have discouraged traders. At best, the Administration has adopted a passive approach to trade, merely reacting to changing world economies, rather than actively seeking to promote a global structure that best addresses America's needs. As a result, we lag seriously behind our foreign competitors in trade performance and economic strength. Export promotion will be a central objective of international economic policy in a Republican Administration.

A Republican Administration will emphasize a policy of free trade, but will expect our trading partners to do so as well. The failure of the Carter Administration energetically to pursue negotiations designed to improve the access of American exports to foreign markets has contributed, in part, to protectionist sentiment.

Domestic problems — over-burdensome government regulations, excessive taxation, inflationary monetary policy, and an unstable economy — have contributed to the protectionist sentiments as well. We realize that protectionist legislation has engendered retaliation by America's trading partners in the past resulting in "beggar thy neighbor" policies that had such disastrous consequences in the 1930s.

Republicans are committed to protect American jobs and American workers first and foremost. The Republican Party believes in free trade, and we will insist that our trade policy be based on the principles of reciprocity and equity. We oppose subsidies, tariff and non-tariff barriers that unfairly restrict access of American products to foreign markets. We will not stand idly by as the jobs of millions of Americans in domestic industries, such as automobiles, textiles, steel, and electronics are jeopardized and lost. We pledge to strengthen trade agreements and to change the Carter economic policies that have undermined the capability of American agriculture and industry to compete abroad.

Republicans believe that this nation's international trade balance can be improved through the elimination of disincentives for exporters. Statutory and regulatory requirements that inhibit exports should be reviewed and, where practical, eliminated. We further recognize that government can play a role in promoting international trade by establishing incentives for exports, especially those for small and medium size business. We pledge also to work with our trading partners to eliminate subsidies to exports and dumping.

Mr. Chairman, this concludes our statement.

Comparative Balance of Merchandise Trade *1970 - 1980
(in billions of dollars)

<u>Period</u>	<u>United States</u>	<u>France</u>	<u>FR Germany</u>	<u>Japan</u>	<u>U. K.</u>	<u>Canada</u>
1970	0.1	-0.8	4.3	0.4	- 2.4	- 2.3
1975	3.7	-1.0	15.3	-2.1	- 9.4	- 2.4
1976	-14.7	-7.4	13.8	2.4	- 9.8	- 0.2
1977	-36.4	-5.5	16.6	9.7	- 6.3	0.9
1978	-39.5	-2.5	20.7	18.2	- 6.8	1.2
1979	-37.3	-7.1	12.2	-7.7	-12.0	0.8
1980	-36.4	-18.0 ^{a/}	5.6 ^{a/}	-14.5 ^{a/}	- 7.6 ^{a/}	3.8 ^{a/}

Trade Balances of Manufactured Goods

<u>Period</u>	<u>United States</u>	<u>France</u>	<u>FR Germany</u>	<u>Japan</u>	<u>U. K.</u>	<u>Canada</u>
1970	2.3	1.5	13.3	12.5	5.4	- 1.0
1975	15.9	8.9	29.6	41.7	8.1	- 8.7
1976	7.6	4.9	42.1	51.2	7.9	- 8.1
1977	- 1.8	8.0	46.9	63.0	9.6	- 7.3
1978	-12.3	9.6	53.5	74.2	7.7	- 6.6
1979	- 2.1	11.5	59.2	72.0	3.5	-10.4
1980 (Jan-June)	3.9	n/a	32.3	41.6	1.8	- 4.6

Imports of Petroleum and Products

<u>Period</u>	<u>United States</u>	<u>France</u>	<u>FR Germany</u>	<u>Japan</u>	<u>U. K.</u>	<u>Canada</u>
1973	8.7	3.9	5.7	6.9	4.1	1.2
1975	28.4	11.0	11.8	21.0	9.3	3.5
1976	36.5	13.3	14.0	23.3	10.0	3.5
1977	47.1	13.9	14.8	26.0	8.8	3.3
1978	44.3	13.2	16.1	25.7	8.7	3.3
1979	62.7	19.4	26.7	38.2	11.1	4.1
1980 ^{e/}	80.0	29.0	36.0	58.0	14.0	6.0

^{a/}First three quarters at annual rate

*Exports fob; Imports cif

^{e/}Estimate based on first three quarters 1980

Source: Commerce Department, International Economic Indicators, December 1980

Comparison
of
Berne Union Members' Export Financing
(Millions of U.S. Dollars)

	Total Income 1978	Total Income 1979	Surplus/Deficit 1978	Surplus/Deficit 1979	Total Business 1978	Total Business 1979	Short Term 1978	Short Term 1979	Medium Term 1978	Medium Term 1979	Long Term 1978	Long Term 1979
Exim (U.S.)	829.2	865.9	152.4	145.7	9,490.5	12,927.8	1,973.0	2,266.0	4,466.3	6,818.4	3,051.2	3,843.4
BOGD (U.K.)	331.4	360.9	(11.9)	(186.8)	35,116	33,428	26,642	25,835	5,395	3,716	416	163
Hermes ^{1/} (Germany)	280.7	373.8	71.6	98.7	14,961.4	14,504.8	10,522.9	10,460.4	2,502.3	1,027.2	1,936.3	3,017.2
COFACE (France)	531.9	619.1	(41.1)	(365.9)	30,663.8	32,152.3	11,840.2	13,982.9	10,688.8	9,260.0	602.7	727.3
EDC (Canada)	14.1	14.9	5.6	2.9	2,533	1,772	990.6	1,225	1,540	547	2	-
EID/MITI (Japan)	87.0	102.9	(44.4)	9.1	31,813.8	39,355.8	26,189.9	31,766.3	2,259.2	4,939.4	2,825.0	2,558.1
SACE (Italy)	110.2	146.8	20.2	9.4	8,703.2	8,017.5	-	-	-	-	7,171.5 ^{2/}	6,200.3

1/ Short, medium and long term includes buyer credits.

2/ Not broken down into short, medium or long term.

SUMMARY STATEMENT OF ROBERT A BEST

Mr. Chairman.

Our organization, composed of 41 corporations and four unions (membership list attached) strongly supports the Heinz bill S. 2600. Enactment of this bill would remove some of the obstacles that hinder American exporters' ability to provide critically important financing to compete against their foreign counterparts for the job-creating export business.

Mr. Chairman, we surveyed our members on the relative importance of various export impediments and incentives. Both the smaller and larger export-oriented companies invariably cited the "credit problem" as a most serious obstacle to exporting. They also cited the Export-Import Bank as a critically important instrument for exporters. The reasons are quite obvious to anyone who reads the paper.

A large portion of the nation states of this world are deeply in debt. Foreign debt obligations of developing nations now approach 1/2 trillion dollars. Some nations are having difficulties even meeting the interest obligations on their external debt. These nations, despite the debt problems, are in desperate need of capital goods, investment and technology for their development. They, therefore, constitute major markets for the goods produced in the so-called "developed" nations. As debt ridden buyers, they must be mindful of their foreign exchange reserves and their external debt obligations. Credit availability and terms is therefore a critical element for the buyer in any large purchase. One or two percentage points

or differences in the size or duration of a loan are often determining factors in who gets the business. As consumers and homeowners we can understand the importance of credit in our own purchases of goods and services.

Yet some in the Administration, despite the strong export-orientation of the Republican platform, do not appear to understand the role of exports in the American economy and the role of credit in financing exports.

Exports are responsible for one in six jobs in our economy. They earn the vital foreign exchange need to pay for the imports needed by our economy. They also produce enormous revenues to assist in bringing the Federal deficits under control.

Exports cannot be viewed as surplus production which can be easily sold abroad because of our "technological superiority". Exporting is a time consuming, expensive business and our exporting community needs and deserves the support of our government. There are enough foreign non tariff barriers to hurdle. Exporters should not have to hurdle multiple barriers imposed by the U. S. government.

Those in positions of responsibility with the Executive and the Congress, who have had business experience understand this well.

I am confident that Secretary George Shultz, Ambassador Bill Brock and Secretary Malcolm Baldrige understand the importance of exports to our economy and the vital role the Export-Import Bank plays in assisting exporters. However, those who have never been in business, who have never had to negotiate a contract to sell or export anything -- these people, however brilliant they may be in their knowledge of the intricacies of the budget -- apparently view the Export-Import Bank as some kind of welfare program for the rich. Thus, to achieve cuts in other parts of the budget, they are apparently willing to proclaim cuts in this vital aspect of business reality -- competitive export finance -- without recognizing that they are destroying our ability to compete, to provide jobs in the private sector and to create the kind of revenue base needed to resolve the structural budget deficit challenges that still face our nation. It is bewildering that the Director of OMB can effectively dominate decision making on such a key international economic issue as export finance.

The Export-Import Bank is an important implement for U. S. exporters. The Bank is not, and never has been a welfare institution. It is an American counterpart to Hermes, Coface, MITI or any other similar institution that provide German, French, Japanese and other major exporters with the financing package necessary to meet the buyer's needs.

The Heinz bill deals effectively with several key issues in the future operations of the Bank.

It would substantially change the current nonsensical budgetary treatment of the Bank's activities. For over 35 years the Bank was not part of the Federal budget for one very simple reason: it does not receive appropriated funds from the U. S. Treasury. The annual lending "ceilings" imposed on the Bank in function 150 of the unified budget are in effect loan limits. Since the Bank Directors are under strict criteria regarding credit worthiness of the borrower, its loan commitments should not be determined by a necessarily political appropriations process. The Bank's record of repayment is excellent, in fact better than most private commercial lending institutions. We do not believe the current budgetary treatment of the Bank makes any sense and therefore we welcome the changes that would be brought about by S. 2600.

Secondly, despite the OECD gentleman's agreement on terms for export finance, it appears that these gentlemen's agreements are observed more in the breach than in reality. The much publicized financing package arranged by the French-Canadian producer for a major subway sale to the New York City transit systems is a case in point. Our own companies have lost hundreds of millions in sales to third countries because of the concessional financing terms offered by European and Japanese producers

working with and through governments institutions. The so called "war chest" in the Heinz bill is a necessary weapon that the U. S. needs as an economic deterrent to the aggressive use of export subsidies to capture foreign markets.

Finally, although our members are primarily in the high technology manufacturing sector of the economy, we do not oppose the inclusion of the agricultural sector in the Export-Import Bank's portfolio. In reality, we recognize that our economy, with all its various sectoral distinctions -- agricultural, industry, service -- is, in fact, an interdependent system. If one major segment of that system is sick, the whole body becomes weak.

In summary, Mr. Chairman, we believe S. 2600 is in our national economic interests. It would better enable our exporters -- large and small, in all sectors of our economy -- to compete fairly with foreign exporters who have always and will always receive the strongest support from their governments.

Thank you Mr. Chairman.

American League for Exports and Security Assistance, Inc.

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PRESIDENT AND GENERAL MANAGER

ROBERT A. BEST
EXECUTIVE VICE PRESIDENT

HERBERT Y. SCHANDLER
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COMPANIES

Aerojet General Corporation
American Hoist and Derrick Company
AM General Corporation
Avco Corporation
Beech Aircraft Corporation
The Boeing Company
Control Data Corporation
Ducommun Incorporated
EDO Corporation
Elsexco International, Inc.
Emerson Electric Company
Fairchild Industries, Inc.
FMC Corporation
Frost and Sullivan, Inc.
Garrett Corporation
Gates Learjet Corporation
General Dynamics Corporation
Goodyear Aerospace Corporation
Gould Inc.
Harsco Corporation
Hazeltime Corporation

Hughes Aircraft Company
Hughes Helicopters
Lear Siegler, Inc.
Lockheed Corporation
McDonnell Douglas Corporation
Martin Marietta Aerospace
The Mead Corporation
Napco Industries, Inc.
Northrop Corporation
Pneumo Corporation
Raytheon Company
Rockwell International
Rohr Industries, Inc.
The Singer Company
Sundstrand Corporation
Teledyne, Inc.
TRW, Inc.
United Technologies Corporation
Vought Corporation
Westinghouse Electric Corporation

UNIONS

Communications Workers of America, AFL-CIO
International Brotherhood of Teamsters, Chauffeurs, Warehousemen
and Helpers
Marine Engineers' Beneficial Association, AFL-CIO
United Brotherhood of Carpenters and Joiners of America, AFL-CIO



Communications
Workers of America
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James B. Booe
Executive Vice President

MAILGRAM - WESTERN UNION

September 15, 1982

The Honorable John Heinz
Chairman
Subcommittee on International Finance
and Monetary Policy
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

The Communications Workers of America, an AFL-CIO affiliate, supports efforts to help our country's industries compete in world markets.

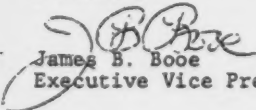
We are alarmed at what we perceive as cross-signals from the Reagan administration: those who want to cut the budget would make significant reductions in the direct loan authority of the Export-Import Bank, even though it may not have a dollar out-flow effect on the budget while others talk about fair trade and jobs. At this time, when our country and much of the non-communist world are plagued by unacceptable levels of unemployment, we are concerned that our industries may not be given the same kinds of advantages as are enjoyed by the competitors. Key industries affected are telecommunications equipment, computers, airplanes and heavy machinery. These industries in Japan, the United Kingdom, France and Germany all enjoy the benefits of active and vigorous export-subsidy programs, using various kinds of public and private funds.

We view export financing and the Export-Import Bank as necessities in enabling American firms, using American labor, to compete in the international market place.

We understand your bill, S.2600, would provide greater independence and a more rational budget procedure for the Bank, as well as additional resources to be used only when necessary to meet predatory subsidies of our trading competitors.

We support the provisions of S.2600.

Sincerely,


James B. Booe
Executive Vice President

cc: ALESA
Hall Sisson

United Brotherhood of Carpenters and Joiners of America

LEGISLATIVE DEPARTMENT

CHARLES E. NICHOLS
GENERAL TREASURER
DIRECTOR



KEVIN B. CAMPBELL
LEGISLATIVE ADVOCATE

101 CONSTITUTION AVENUE, N. W.
WASHINGTON, D. C. 20001



September 14, 1982

The Honorable John Heinz, Chairman
Subcommittee on International Finance
and Monetary Policy
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

The United Brotherhood of Carpenters and Joiners of America strongly supports a positive, job-creating export policy.

One important aspect of such a policy is adequate credit facilities to enable American industries to produce in America for export to foreign nations. That would help put some of the 10 million unemployed Americans back to work.

The Export-Import Bank is vital to American jobs. It is currently hampered by shortsighted policies and inadequate "lending ceilings". Your bill, S. 2600 is an important step in resolving this problem and we support it.

Sincerely,

Charles E. Nichols
General Treasurer and
Director of Legislation

CEN/pa

Senator HEINZ. Mr. Best, thank you very much.
Mr. Werling.

STATEMENT OF EVAN WERLING, VICE PRESIDENT AND TREASURER, THE FRENCH OIL MILL MACHINERY CO., PIQUA, OHIO

Mr. WERLING. I have submitted a detailed documentation of the predatory financing that we're facing around the world from our competition, not just yesterday, not just 2 weeks ago, but as of today.

Senator HEINZ. Mr. Werling, without objection, your entire statement will be included in the record.

Mr. WERLING. Thank you.

Along with an example on competitor letterhead of paper of orders that we've lost.

Our company is a quality and technological leader throughout the world. We're competitive pricewise with whomever we compete with, and our competition is coming from Europe.

PREDATORY FINANCING

I want to say that, unequivocally, our company is being wiped out by the predatory financing of the European economic community. And I don't think our company is any different from a lot of other small businesses. If we're having trouble competing on the economic market because of financing, with the 80-some years of expertise our company has in the export market, think what's happening to the other small companies around the United States.

The Eximbank, contrary to what has been said today, is not working for small business.

Last week I attended a banker seminar at the Eximbank for the reason that I wanted to find out exactly how the U.S. banks, the private sector, works with the Eximbank to provide financing for the small business.

And one of the very high officials in the Bank made the comment to me after the meeting—he said, "Ev"—he said, "you've got the same problem big business does." He said, "You're no different. We're all in this together."

I said, "What?"

He said, "Well, you're competing for the same capital that big business is."

To minimize my statement, I'd have to say I was absolutely shocked to have that kind of a statement come from one of the top officials in the Eximbank. That's like saying that we're competing with big business which is on a big cruise ship out in the middle of the ocean and here we're in a rubber raft with sharks coming up around us and we're both competing to get to the other side of the ocean. That's about the same kind of analogy.

We don't have access, as small business, to the international capital markets. We have tried for decades to work with the big international banks that are based here in the United States, the ones that are based in Switzerland, the ones that based in Europe and Japan. And never once have we been able, in our history, to finance an order through these big international money center banks, because the volume of business that small business does,

isn't sufficient to make it profitable for those big international banks.

And each individual loan, which may range from \$50,000 up to maybe \$1.5 million, \$3 million at the most, that's not profitable for them.

So, we don't have access to the big money center banks, as do big corporations.

Then, we come in with all the U.S. Government programs. We've got the World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the U.S. Aid program, PEFCO, OPIC, the Overseas Private Investment Corporation. These are all programs designated really for big business, because either it requires a capital investment on part of the U.S. company or it requires the company to have the personnel to go into the developing countries and help those countries identify the projects for which they're going to come back and ask for the use of the funds.

Small business doesn't get anything out of this. This is another program where small business—numerous programs, small business is shut out.

And then we come to the situation of the foreign Eximbanks.

Last week I was at a meeting with some large corporate executives, and they said, "Well, the lack of Eximbank funding for our company isn't hurting us too badly, because we just transfer our production to Europe, and we can get their favorable financing."

We, French Oil, can't transfer any production to Europe because we don't have a plant in Europe, and we can't get that financing.

And it comes to the U.S. Eximbank, and in 1982, 67 percent of the total funding of the Bank went to seven companies—seven companies. That doesn't mean that the other 33 percent went to small business. That other 33 percent went to all the other big businesses that existed, plus the 20,000 to 30,000 small manufacturers that are presently exporting out of the United States today. And that 20,000 to 30,000 number, incidentally, is documented in the September issue of Business America, which is put out by the Department of Commerce.

In the last year and a half—and let's talk about the competitive practices which we heard today from Mr. Draper that we're going out and the Eximbank is meeting the competition. For the last year and a half, we haven't been able to finance one order—not one through the Eximbank—where competitive financing was involved. We lost every order that we've competed on in the international market for the past year and a half because of financing.

We even went to the point of cutting our prices, which is documented in my written testimony as a supplemental issue here. We've written to the Eximbank. We've worked with those loan officers. And Mr. Draper is right, they're a bunch of very nice people, but they don't go to bat for small business and they don't come down and meet the competitive prices of the export financing of the European economic community or anybody else.

Senator HEINZ. Mr. Werling, let me interrupt you at this point just to ask this.

Mr. Draper said, "Well"—he said, "I don't think we lost much in the way of sales. You know, a lot of other people in the administra-

tion came up with numbers to the contrary." He said, "This is all an excuse." He said, "It's really for other reasons."

Now, you've made a very clear statement, which is you believe you've lost order after order because of noncompetitive financing from the Eximbank.

How can you prove to Mr. Draper, or the members of this committee, that you're right and he's wrong?

Mr. WERLING. This is a very interesting situation, because every time we get into a competitive situation we get the request from them, "Well, prove it to us. Prove it to us."

Well, we're no different from our counterparts over in Europe. And that is we know who we compete against, and we know what their rate is. It's documented in my printed testimony. And we know what our rates are.

So, it's very, very difficult for small business to get documentation—when a specific order comes up, to get specific documentation on what the competition is offering until after we've already lost the order.

We've gone to the Eximbank, and they themselves have tried to get the documentation on it. But they'll call the Eximbank counterpart over in Europe, and they'll say, "Well, the small business hasn't approached us." Well, no, they haven't approached the Eximbank over there, because they know what they can get. And so, consequently, they wait until they get an order, and then they get the financing—very similar to what we do here in the United States.

Senator HEINZ. I'm going to interrupt you a second. And I apologize, but I do see a few representatives from Eximbank still sitting here. And I recollect Mr. Draper indicating his expertise in marketing.

One of the things that an expert in marketing does is he test markets. That's how you become an expert. That's how you avoid making mistakes. That's how you learn what the dynamics of your market are.

ENCOURAGE MARKETING ANALYSIS

If the Eximbank is truly serious about isolating, for itself and others, what it is that is losing sales, what you'll do is test one of these instances, for example, of Mr. Werling's corporation, which means you'll test to find out if financing, in fact, is the determining factor.

At the present time, the Eximbank has not tested in any meaningful sense of the word at all. It has abandoned its responsibility to do some marketing analysis, which it can easily do through experience—it's the only way you get any real results—of its policies. And for the Eximbank not to have done that, particularly given a man who says he's got a lot of marketing expertise, is, I think, really a dereliction of responsibility and duty. And I say it with some conviction, because I used to be a marketing man myself. And the way we decided and found out what made it possible for us to market successfully a product line was we tested—we tested a variety of kinds of factors.

And I would suggest that the Eximbank engage in an aggressive testing program that's going to involve putting up real money for real sales. And I think you'd better do that before you come back to see us in January or February, whenever you're coming back, because I think that the kind of discussion we had, where we have every other member of the administration saying Eximbank has lost sales, a billion dollars in sales or more in fiscal 1982 because of noncompetitive financing and have—let alone the private testimony we've had—and then to have the Bank come and say nickels and dimes is absolutely ludicrous.

Mr. Werling, excuse me.

Please proceed.

Mr. WERLING. Last week, also at this banking seminar that I attended at the Eximbank, the statement was made by the public relations officer and also some of the people in the policymaking division—they both made the statement that we are going to have a billion dollar surplus this year because the demand isn't there. The demand isn't there. I think that's nothing more than a fancy play on words.

They're right, the demand wasn't there, but the need was there. And the reason that the demand wasn't there was because the policies were so noncompetitive that the U.S. exporter couldn't come to them because he knew that he couldn't get competitive financing, and that's what's happened to our company. We know we can't get competitive financing, so we're not going to come and ask for it anymore.

We have—time and time again, we've come to them. And it's documented in the written testimony of where we've gone for competitive financing and we don't get it.

So, when they say the demand isn't there, they're absolutely correct. The demand wasn't there because their policies were not competitive for the past year and a half. However, the need was there.

And this morning Mr. Draper made the comment that the Eximbank has approved 90 percent of all preliminary commitments that have been submitted before the Exim Board. What they don't see is they don't see the opportunities that are lost by business that don't come before the Board because they can't get the competitive financing.

And we're not losing just a little bit of sales. Our company has lost because of this noncompetitive policy. Our business is down 41 percent from where it was a year and a half ago—41 percent. In our 82-year history, we've never had a layoff. We've kept our employees during good times and bad. And now we're down to 41 percent reduction in our work hours, and we don't have one financed order on the books, period, going into next year, not one.

Senator HEINZ. Well, it was suggested earlier that that's due to the worldwide recession.

Mr. WERLING. Absolutely not, because this past year alone, if we could have booked this one order for \$6,500,000 that we lost in Egypt, which was—we lost it because we couldn't get competitive financing from the Eximbank, we would be working a 55-hour week right now, just the one order.

Business in our environment, in the agricultural, oil extraction environment, it's a busy business. It's not down because of the

world recession. Our business is down because it's all been exported over to Europe, and they're getting the business while we got nothing in the past year and a half.

As I said before, at the present time, we don't have one order on our books where we have received export financing.

I've made a number of recommendations which I would like for you to consider regarding proposals that I think should happen. But I think to capsule probably the most important one, the Eximbank has never had, and doesn't have today, a viable program for small business.

DISCOUNT LOAN PROGRAM

The discount loan program is a very, very effective tool for small business. It's a program whereby they can use the private banking sector to accumulate all the credit information and financing that's necessary for the small exporter to be able to market his products overseas. It's a very viable tool.

And I recommend that that program—and I suggest that it's a misnomer, because discount loan is no discount. By the time we take the 12-percent factor plus the 1 percent of the commercial bank, plus the 4.5 percent for loan guarantee insurance, we're not competitive. That program isn't competitive today with our European competition, but it is a very viable tool and the most effective funding tool that the Eximbank has for small business. And I would like to see it renamed as the small business program and be given some adequate funding.

Now, last year—or the Department of Commerce put out, just recently, in *Business America*, the September 6 issue—they made the comment there are 20,000 to 30,000 small manufacturing—manufacturing exporters right now. There could be as many as 60,000.

Why aren't there 60,000 small manufacturing exporters?

A study was just completed by the Senate Small Business Committee which was published in the *Washington Report*. And the Senate Small Business Committee indicated that increased financial assistance topped the list of improvements the Government should make to help small businesses export.

So, the various departments of the Government seem to know what small business needs. But, unfortunately, those policies are not being forwarded—or those requests are not being forwarded to the Eximbank.

SMALL BUSINESSES ARE RUNNING OUT OF TIME

And I'd like to make one final comment, that at this point in time small business is running out of time. We have spent decades and decades and decades building our international marketing network. Today we have practically no business at all on our books, and we're starting to lose that international marketing network, because if you can't make sales, you can't pay the commissioned agent. If you can't pay the commissioned agent, they leave you.

And when small business starts losing its international sales network, it's all over.

And our company, which is the strongest company, capitalwise, in the world in our industry, is faced with that severe problem.

We're at the point where we're going to start losing our international marketing network; and when we lose that, it's all over. Time is running out, and something is going to have to be done. And I don't think that we're unique in this area.

And I'm not coming here as a person who is trying to tear down the Eximbank. I'm not an adversary. Small business needs the Eximbank. We need the Eximbank, but we also need an opportunity to be on a competitive basis with our Europeans who are taking all of our business away.

[The complete statement follows:]

STATEMENT OF
EVAN A. WERLING
VICE PRESIDENT - FINANCE
FRENCH OIL MILL MACHINERY COMPANY

INTRODUCTION

Mr. Chairman, members of the Senate Subcommittee on International Finance and Monetary Policy -- I am Evan A. Werling from the French Oil Mill Machinery Company, which is located in Piqua, Ohio, a community of approximately 20,000 people. French Oil is a small company (employing approximately 320 people) and exports approximately 50% of its sales volume. Our company designs and manufactures machinery used in the extraction of edible vegetable oils (such as soybean oil, corn oil, sunflower oil, etc.), separation of water from sugar cane, dewatering of natural rubber and synthetic polymers as well as the molding of rubber into various products, from tennis balls to automotive engine gaskets.

Our company is a technological leader in its various product lines and is known for its high quality workmanship and product durability. We export to many of the developing countries of Africa and Central and South America, where there is a lack of available U.S. financing -- but a dire need for our products, which are used to process raw agricultural products into edible oils and foods for the countries' inhabitants and for animal production. Without this machinery, the developing countries are forced to sell their raw agricultural products as a commodity -- thus lessening their ability to be self-sufficient and viable importers of other American-made goods.

SUBJECT: Small Business-Export Financing

Even though the French Oil Mill Machinery Company has an extensive background in export financing, we have not been able to finance an export sale through the Eximbank for more than a year. During the past year, French Oil has not been able to offer any financing or competitive financing for more than \$15,000,000 of potential sales. All of these sales have been lost or are in the process of being lost to European competitors who are able to offer low-cost financing through their government-supported programs. These lost sales were not a result of inferior products or technology, they were not the result of excessive wages in our plant, nor were they lost because our prices were too high. They were lost because we could not obtain competitive financing!

Approximately one month ago (at the request of Richard L. McElheny of the U.S. Department of Commerce) Dr. Fred Amling and Dr. Fariborz Ghadar of George Washington University conducted a study of our company concerning the effect present federal policy is having on export sales and employment. They expected to find a small, middle-American company whose product life was reaching its end and a company that did not have the management expertise needed to compete in the international market. Instead, they found that French Oil is the technology leader in its markets and is managed by a well-educated and highly-trained professional staff. Its workers are not overpaid in relation to foreign competition and are highly productive, dedicated employees. At the conclusion of

their visit, they were convinced that lack of competitive export financing is the main cause for our company's lack of business. They were surprised to find that our company is being excluded from both the export market and from the U.S. domestic market because of foreign government-subsidized export financing. Their study also placed emphasis on identifying the significant social costs (such as unemployment cost) the United States must incur because of a weak export financing program.

The attached Exhibits are examples of financing which has been, and is being offered by our foreign competition. As you will note, the latest example of favorable foreign financing is dated June 28, 1982.

Without adequate, competitive funding from the U.S. Export-Import Bank, additional small businesses will be blocked from entering the export market and existing small business exporters will not be able to remain in the export market.

Unfortunately, many people do not recognize the obstacles small businesses face in their attempt to obtain export financing. The following is a listing of seven (7) major export financing tools. Of these seven, the Export-Import Bank is currently the only viable financing mechanism available to the small manufacturing exporter where foreign competition is involved.

1) INTERNATIONAL BANKS

The small manufacturer does not have a sufficient volume of export sales to warrant ongoing attention from large international banks. In addition, individual sales from the small exporter are usually not of sufficient size to create a profitable transaction for the large international bank. Therefore, large international banks are not a viable tool for financing exports from small U.S. manufacturing companies.

2) REGIONAL BANKS

As a general rule, regional banks do not have the capability or capital to support a strong export lending program. Small manufacturers are usually required to provide loan guarantees, collateral, and other assurances to satisfy the regional banks' export loan requirements. In many cases, these assurances and documentary requirements are so extensive that a severe burden is placed on both the exporter and the potential customer. If the exporter isn't frustrated by comprehensive demands from the regional bank, the buyer is insulted and rejects the imposition mandated by the U.S. bank. In either case, the small exporter loses the sales opportunity. In those cases where regional banks have been willing to make export loans, the rates have not been competitive with financing offered by our European competitors.

3) EXPORT TRADING COMPANIES

Legislation is in process to establish Export Trading Companies. The major Ohio banks with which we conduct business are expressing little to no interest in financing our products through this program. Most plan to "wait and see" what their competitors do or plan to move slowly with this program. Although Export Trading Companies may offer long-term benefits, it appears they will provide limited or no additional near-term opportunity for small manufacturing exporters to finance export sales.

4) DEVELOPMENT BANKS

Numerous development banks, such as the World Bank (IBRD, IDA, IFC), Inter-American Development Bank, Asian Development Bank, African Development Bank, etc., are available to finance export sales. However, funding from these sources is primarily available to large corporations which have the manpower to develop large projects within developing countries. Small manufacturing exporters generally have access to development bank funds only when their equipment is necessary as a part of an overall development project which is being coordinated by a large international company.

5) U.S. GOVERNMENT FUNDING PROGRAMS - OTHER THAN EXIMBANK

A number of U.S. Government programs, such as PEFCO, OPIC, U.S. AID, etc., are available to finance export sales. However, these programs are directed toward large projects and/or require an equity investment from the exporter or require long-term coordination with the developing country to develop the project for which the funds will be used. In all of these cases, the small manufacturing exporter does not have the resources, capital or personnel to compete with big business for use of these funds.

6) SMALL BUSINESS ADMINISTRATION AND DEPARTMENT OF COMMERCE PROGRAMS

The Small Business Administration offers various programs to assist the small exporter. Recently, a new program was developed to finance operating needs and inventories used to fill export sales. Although this program was initiated with good intent, like many other programs it fails to recognize that, unless the small manufacturing exporter can finance a sale, there will be no need to finance inventories to support the export sale.

The Department of Commerce has an excellent program to assist small U.S. exporters in finding foreign selling agents. However, foreign selling agents are of little value when the small business can't finance its export sales. We have many good selling agents located

throughout the world; however, their expertise and good connections cannot win against two to three percent lower interest rates being offered by our foreign competitors.

7) EXPORT-IMPORT BANK

The Export-Import Bank presently offers the only viable opportunity for the small manufacturing exporter to obtain competitive financing for export sales. Unfortunately, even at the Eximbank the small company must take a back seat. In recent years, the Export-Import Bank has been used predominantly to finance the export sales of a few large international companies. When funds have been available during the past two years, the Eximbank interest rates and commitment fees were not competitive compared to financing offered by our foreign competitors. The small manufacturing exporter is being squeezed out of the export market -- with no viable options through which export sales can be financed.

Many large international companies are not facing the severe financing problems which confront small business. In addition to the many private and U.S. government funding programs available to big business, many large international companies can take advantage of foreign government export financing programs which are available in other countries where they have plants.

MIXED CREDITS

A concerted effort is being made to allow financing of U.S. exports through mixed credits. Mixed credits are basically defined as a mixture of Eximbank financing together with funds available through the U.S. A.I.D. program or other government programs which, when combined, provide a blended financing rate comparable to mixed financing rates available from foreign competitors. If and when mixed credits are made available to the U.S. exporter, an even larger portion of Eximbank funds will be absorbed by big business, since they are the predominant benefactors of funding available through U.S. A.I.D. and other government-subsidized programs. This will be another case of the big companies getting bigger at the expense of small business.

PRESENT SITUATION

Although much has been said about lowering the U.S. trade deficit, reducing unemployment and promoting new jobs through expansion of export sales, little has been done to develop new programs or modify existing programs to assist small business in financing export sales to accomplish these goals. These problems are exacerbated by the United States electoral process, which allows the policies of the Export-Import Bank to be adjusted to fit the political and/or budget preferences of new administrations. This

is a primary reason the United States has been unable to develop consistent export policy which will allow the private sector to compete on an equal basis with its foreign competition. Unless a competitive and consistent government export environment is established, private enterprise cannot afford to commit its resources to promote new jobs through expansion of exports.

Current policies of the U.S. Export-Import Bank are not helping to lower the U.S. trade deficit or reduce unemployment, nor are these policies promoting new jobs through expansion of export sales. Current policies and actions do not meet the Bank's authorized objective of fostering "expansion of exports of manufactured goods, agricultural products, and other goods and services, thereby contributing to the promotion and maintenance of high levels of employment and real income and to the increased development of the productive resources of the United States." During the past several years, the Bank has consistently failed to provide "guarantees, insurance, and extensions of credit at rates and on terms and other conditions which are competitive with the government-supported rates and terms and other conditions available for the financing of exports from the principal countries whose exporters compete with United States exporters." (1)

Current policies and actions by the U.S. Export-Import Bank are not promoting domestic employment. Present policies are resulting in the export of jobs of United States citizens. This policy is

(1) The Export-Import Bank Act of 1945 (as amended to date); SEC. (2)(b)(1)(A)

having a very serious impact on large and small business and the people they employ. During the past two years our bookings for export sales have dropped significantly because of inadequate or non-competitive financing. Bookings are so low, it appears fiscal 1982-83 sales may approximate only 50% of sales incurred in fiscal 1979-80 when competitively priced export financing was available. There is a significant market for our products; however, due to lack of export financing, we have not been able to obtain these orders for our work force.

It has taken our company decades to develop a reliable and educated network of selling agents throughout the world. These sales people will not stay with our company unless they are compensated. Once the international sales force begins to disintegrate, the small businessman will have lost his ability to sell in the international market.

Our company is presently facing one of the most serious economic conditions in its history -- much of which is a result of subsidized financing made available to foreign exporters and the unwillingness of the U.S. Export-Import Bank to provide competitive financing -- as mandated in its charter. For our business and for other small businesses, this condition cannot continue -- if we are to remain viable in the international marketplace. If our Export-Import Bank is allowed to maintain its underfunded and non-competitive financing position, more U.S. exporters will go out of

business or move their operations overseas to gain more favorable export financing. In either case, more jobs will be exported to our foreign competitors and more unemployment will be generated in the United States. As this happens, foreign governments will no longer need to offer subsidized financing to their exporters -- because they will no longer have competition from U.S. manufacturers whose employees will be drawing welfare checks rather than employment checks.

RECOMMENDATIONS

A strong and adequately-funded Eximbank must be available if the United States is to develop and maintain a consistent and competitive export policy.

The Export-Import Bank of the United States must be made less political. This can be accomplished by staggering the expiration of the term of office for each Eximbank director, with only the Chairman being appointed during the first year of a new administration.

Funding for the Eximbank should not be treated as foreign aid in the Congressional budget. With the exception of a few years, the Eximbank has been a profitable operation and has returned substantial dollars to the U.S. Treasury. The Eximbank is an investment in the future of the United States and is one of the best programs ever established by Congress for the promotion of job expansion through the private sector.

The Eximbank should offer competitive financing under the Discount Loan Program; this is not happening today. It should also provide financing in all countries where the U.S. exporter faces a competitive, government-supported financing situation; this is also not happening today.

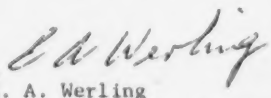
The Discount Loan Program is a very effective tool through which small businesses can finance export sales, since it allows small business to utilize the private banking system for coordinating the collection of documents necessary to complete the credit and financing process. However, we recommend the Discount Loan Program be renamed as the Small Business Export Program or some other designation to distinguish it as a program for small business. The present name of "Discount Loan" is a misnomer, since funding provided through this program is actually at a higher rate than funding provided through the Direct Loan Program once the commercial bank rate and insurance guarantees required by the local or regional banks are added.

As mentioned earlier, the Export-Import Bank's Discount Loan Program is the only viable funding program presently available to support small business exports. Reasonable funding (a minimum of \$1 billion) should be set aside specifically for small business export financing. Otherwise, existing and potential small exporters will not have a viable opportunity to finance export sales. It would also help silence many of the critics who claim the bank is dominated by a few large companies and prevent a few large corporations from further reducing export funds available to small business.

Unfavorable policy changes affecting the Export-Import Bank should not be applied retroactively to contracts under negotiation by U.S. exporters. Retroactive application of unfavorable policy changes can be very detrimental to a small exporter, since it can place him in financial jeopardy -- without prior knowledge on his part.

SUMMARY

Small businessmen have a strong desire to compete and succeed on the basis of their own ability. By nature, we don't want subsidies from our Federal Government, nor from any other source. However, we must face reality -- foreign governments are unfairly assisting their corporations in maintaining and/or increasing their employment at the expense of the American working man. Small businesses, such as ours, cannot compete with unfair foreign government practices. Past efforts to stop foreign subsidized financing through government negotiations have not been successful! Therefore, the United States government must intervene to protect the jobs of American workers. Otherwise, more companies will go out of business, the unemployment rolls of the United States will continue to increase, and our balance of payments will continue to deteriorate. We cannot allow foreign governments to continue their destruction of the manufacturing backbone on which the United States was built. It's time for a consistent Eximbank policy for the creation and preservation of jobs -- rather than allowing the export of existing jobs!


E. A. Werling
Vice President - Finance

EXHIBITS -- INDEX

- I. This exhibit represents a quotation made by Speichim, our French licensee, and financed by COFACE, the French equivalent of the U.S. Eximbank. It contains the following terms and conditions which are not available to the U.S. manufacturer:
- A. The U.S. Eximbank will not presently support financing to the Dominican Republic, whereas COFACE will support financing.
- B. The interest rate offered by COFACE is 10% per year -- whereas, the U.S. Eximbank rate under the Discount Loan Program is approximately 12% plus an additional 1% for the U.S. commercial bank (or 13%).
- C. Credit terms extend over seven (7) years; the U.S. Eximbank, for a comparable financial arrangement, offers financing for only five (5) years.
- D. "The duration of the contract may be extended with the approval of the French Administration to meet the most favorable proven bid on the part of the competition." Although the charter of the U.S. Eximbank is similarly stated, the U.S. Eximbank has not been willing to meet the most favorable proven bid from the U.S. exporter's competition.

It should be noted that, although President Reagan negotiated an agreement with our European competitors at the conference in Versailles, this offer was extended to our prospective customer on June 28, 1982 -- following the agreement executed by President Reagan.

II. This financing proposal (in excess of \$5 million) was also presented to a company in the Dominican Republic by Simon-Rosedowns Ltd. of England. The quotation was made February 22, 1982 and included the following financing terms which were not available from our U.S. Eximbank:

- A. England was willing to finance this sale to the Dominican Republic; the U.S. Eximbank was not willing to finance the order.
- B. Our competitor from England offered interest at 10% per annum on the outstanding balance.

III. This exhibit is a proposal submitted by DeSmet, from Belgium. The following terms and conditions were offered by DeSmet, but were not available to French Oil from the U.S. Export-Import Bank:

- A. The Belgian government was willing to finance this contract in the Dominican Republic; the U.S. Eximbank was not willing to commit to financing.

B. The Belgian financing was offered at a guaranteed interest rate of 10% on the unpaid balance.

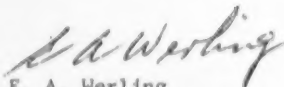
IV. This exhibit represents a quote made by a company called De Wecker from Luxembourg. A copy of both the untranslated and translated version is attached. The 10% fixed rate financing offered is far below financial rates available from our Eximbank. At the time of this quote, the U.S. prime rate was approximately 15-3/4%.

V. This contract proposal represents a Belgian proposal for favorable financing to a U.S. company located in Weston, Ohio. The favorable financing terms offered were at the rate of 9.25% per annum.

This proposal did not result in a contract being signed; however, it is representative of the favorable financial terms being offered by our European competitors to our domestic customers.

SUMMARY

It is very difficult for a small company to obtain documentation concerning competitive financing -- especially prior to the customer signing the order. However, we believe the attached exhibits represent the "real world" of export financing and accurately document that the U.S. Eximbank is not providing competitive programs to neutralize foreign government financing subsidies -- nor is it fulfilling its responsibility to promote growth in our country's employment.


E. A. Werling
Vice President - Finance

EAW/dlm

Attachments

EXHIBIT I

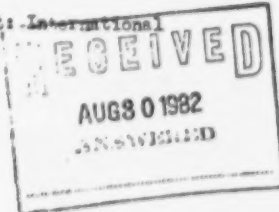
B U E

Banque de Union Europeenne
4, rue Baillon
B.P. 89
75060 PARIS 02

June 28, 1982

ACRO MORA INDUSTRIAL C.A.
Apartado 1538
SANTO DOMINGO (Dominican Republic)

Depts: International



Attn: Mr. Gregorio MORA, President

Gentlemen:

We are writing in regard to the competitive bidding set up by your organization on which SPEICHM has prepared a proposal in accordance with requirements.

This bid concerns furnishing and start-up of a plant for producing oil from soybean having a processing capacity of 300 tons of soy per 24 hour day, - for a total as regard the French portion of FF 35,000,000.00.

Financing can be set up, subject to approval by the French authorities having jurisdiction in the form of a Purchaser's credit guaranteed by the COMPAGNIE FRANÇAISE D'ASSURANCE POUR LE COMMERCE EXTERIEUR (COFACE) ("French Foreign Trade Insurance Company") for the part of French origin and further, by means of a supplemental financial credit.

1) PURCHASER'S CREDIT

Amount: 85% of the French portion or FF 29,500,000.00 This amount may be increase in proportion to any increase in the French share. This credit will be made operative by a credit agreement to be signed between ACRO MORA INDUSTRIAL C.A. acting as borrower and our Bank.

This credit is to be used in accordance with the progressive payments defined in the commercial contract.

Currency in which payment is to be made: French Francs.

Duration: Seven years from the date the trade contract is signed including a grace period of 2 years which covers according to our information the construction period of the plant.

Reimbursement: (repayment) in 10 six-monthly periods, equal and successive, the first falling due 6 months after provisional delivery of the plant and at the latest, after a deadline to be set by French authorities in keeping with the terms of the commercial contract.

The duration of the credit may be extended with the approval of the French Administration to meet the most favorable proven bid on the part of the competition.

Interest: The interest rate shall be the rate in effect on the date the commercial contract is signed, current term being 10% per year payable in six-monthly installments, when due during the period the credit is being used and repaid. This rate shall remain fixed during the life of the credit. Principal and interest payments shall be made operative by means of promissory notes.

Credit insurance premiums: The premiums due COFACE are to be paid by the borrower prior to each draw of credit.

However, these premiums may, should the borrower so desire, be paid either by an increase in the interest rate or by an increase in the principal amount. Currently, this increase would be .6% per year if the guarantee bond of the Ministry of Finance of the Dominican Republic or of a first line bank at the choice of COFACE.

The Percentage increase in the principal, in the second case is to be spelled out in the credit agreement in keeping with the final terms of the commercial agreement.

Commissions:

- A commission for handling is to be charged on the total amount of the credit at the flat rate of .5%. This commission is to be payable in a lump sum at the time sales agreement is signed.
- A commitment commission is to be charged at the rate of .5% per year payable every six months and in advance on the total unused balance of the credit running from the date agreement is signed (credit agreement) (each six months period begun is equivalent to a full semester.
- Fiscal rates: Exempt from all taxes and duties, either present or future in the Dominican Republic.
- Guarantees: A guarantee by the Ministry of Finance of the Dominican Republic shall be required.

2) FINANCIAL CREDIT

Further, we should like to confirm that the BANQUE DE L'UNION EUROPEENNE is ready to set up a financial credit having the following terms,

Total amount: The amount shall be equivalent to the installment payments or 15% of the repatriatable amount. Today the amount comes to FF 5,500,000

Borrower: AGRO MORA INDUSTRIAL C.A.

Currency: U.S. Dollars

When usable: To be determined by contractual provisions

Duration: 5 years from date financial contract signed

Repayment: in equal and successive six-monthly installments, the first falling due

30 months after financial contract is signed.

Interest: Eurodollar at six months on London market plus $1\frac{3}{4}\%$ per year

Handling commission: Flat US\$ 10,000 payable when financial contract is signed

Commitment commission: .5% per year on unused balance of credit, payable in installments every six months, when period ends.

Expenses: All legal expenses and others are the responsibility of the borrower.

Guarantee: The same guarantees as those required for the signing of the credit agreement in French Francs shall be required to the satisfaction of the BANQUE DE L'UNION EUROPEENNE.

Fiscal standing: exempt from all taxes and duties/ whether present or future in the Dominican Republic, which in any event would be the borrower's expense.

Validity period of our offer: To September 30, 1982

We hope we have offered you an overall financial plan adapted to the needs of your project and we are at your service to furnish any further information you may need.

There being nothing further we remain

cordially

BANQUE DE L'UNION EUROPEENNE

Didier LAVAL CHANVET
Executive

Henri de MONTLEBERT
Asst. Mgr.

BANQUE DE L'UNION EUROPEENNE

Paris, le 28 de Junio de 1982

AGRO MORA INDUSTRIAL C.A.
Apartado 1538

direction

des Affaires Internationales
DL/RMSANTO DOMINGO (República Dominicana)A la atención del Señor Gregorio MORA
Presidente

Muy Señores Nuestros,

Nos referimos a la licitación organizada por su honorable Institución y por la cual SPEICHIM ha preparado una proposición conforme a la requerida.

Dicha oferta se refiere al suministro y a la puesta en marcha de una planta de producción de aceite a partir de soja y de una capacidad de tratamiento de 300 toneladas de soja por 24 horas, por un importe de parte francesa de aproximadamente FF. 35.000.000.-.

Un financiamiento podrá ser organizado, bajo reserva del acuerdo de las Autoridades Francesas competentes, bajo la forma de un crédito comprador garantizado por la COMPAGNIE FRANCAISE D'ASSURANCE POUR LE COMMERCE EXTERIEUR (COFACE), por la parte de origen francesa y por otro lado, por medio de un crédito financiero complementario.

1/. CREDITO COMPRADOR

Importe : 85 % de la parte francesa o sea FF. 29.500.000.-.

Este importe podrá ser aumentado en proporción con un crecimiento eventual de la parte francesa. Dicho crédito será materializado por un convenio de crédito firmado entre AGRO MORA INDUSTRIAL C.A., actuando como Prestatario y nuestro Banco.

Dicho crédito será utilizado en conformidad con los pagos progresivos definidos en el contrato comercial.

Moneda de pago : Francos Franceses.

.../..

Duración : 7 años a partir de la firma del contrato comercial, incluyendo un período de gracia de 2 años, que corresponde, según nuestras informaciones, al período de construcción de la planta.

Reembolso : en 10 semestralidades de principal iguales y sucesivas, la primera venciendo 6 meses después de la recepción provisional de la planta y, a lo más tardar, después de una fecha límite definida por las Autoridades Francesas, en relación con las características del contrato comercial.

La duración del crédito podría ser mejorada con la aprobación de la Administración Francesa, en función de una oferta más favorable probada de parte de la competencia.

Interés : el tipo de interés será el tipo en vigor a la fecha de la firma del contrato comercial ; en las condiciones actuales es de 10 % por año, pagadero semestralmente y a término vencido, durante el período de utilización y de reembolso del crédito. Esta tasa quedará fija durante el período del crédito. Los vencimientos de principal y de interés serán materializados por pagarés.

Primas de seguro-crédito : las primas debidas a la COFACE deberán de ser pagadas por el Prestatario previamente a cada utilización del crédito.

Sin embargo, dichas primas podrán, si así lo deseara el Prestatario, ser pagadas o sea por un aumento del tipo de interés o sea por un aumento del principal. Actualmente, dicho aumento sería de 0,60 % al año, si es otorgada la garantía del Ministerio de Finanzas de la República Dominicana o de un banco de primer orden a conveniencia del COFACE.

El porcentaje de aumento del principal, en el segundo caso, se definirá en el convenio de crédito, en función de las características definitivas del contrato comercial.

Comisiones :

- . Una comisión de gestión será cobrada sobre el importe total del crédito, a la tasa del 0,50 % flat. Dicha comisión será pagadera en un solo monto, en el momento de la firma del convenio de crédito.
- . Una comisión de compromiso será cobrada a la tasa del 0,50 % por año, pagadera semestralmente y por anticipado sobre el monto no utilizado del crédito, a partir de la firma del convenio de crédito (cada semestre empezado equivale a un semestre entero).

.../..

BANQUE DE L'UNION EUROPEENNE

Duración : 7 años a partir de la firma del contrato comercial, incluyendo un período de gracia de 2 años, que corresponde, según nuestras informaciones, al período de construcción de la planta.

Reembolso : en 10 semestralidades de principal iguales y sucesivas, la primera venciendo 6 meses después de la recepción provisional de la planta y, a lo más tardar, después de una fecha límite definida por las Autoridades Francesas, en relación con las características del contrato comercial.

La duración del crédito podría ser mejorada con la aprobación de la Administración Francesa, en función de una oferta más favorable probada de parte de la competencia.

Interés : el tipo de interés será el tipo en vigor a la fecha de la firma del contrato comercial ; en las condiciones actuales es de 10 % por año, pagadero semestralmente y a término vencido, durante el período de utilización y de reembolso del crédito. Esta tasa quedará fija durante el período del crédito. Los vencimientos de principal y de interés serán materializados por pagarés.

Primas de seguro-crédito : las primas debidas a la COFACE deberán de ser pagadas por el Prestatario previamente a cada utilización del crédito.

Sin embargo, dichas primas podrán, si así lo deseara el Prestatario, ser pagadas o sea por un aumento del tipo de interés o sea por un aumento del principal. Actualmente, dicho aumento sería de 0,60 % al año, si es otorgada la garantía del Ministerio de Finanzas de la República Dominicana o de un banco de primer orden a conveniencia del COFACE.

El porcentaje de aumento del principal, en el segundo caso, se definirá en el convenio de crédito, en función de las características definitivas del contrato comercial.

Comisiones :

- . Una comisión de gestión será cobrada sobre el importe total del crédito, a la tasa del 0,50 % flat. Dicha comisión será pagadera en un solo monto, en el momento de la firma del convenio de crédito.
- . Una comisión de compromiso será cobrada a la tasa del 0,50 % por año, pagadera semestralmente y por anticipado sobre el monto no utilizado del crédito, a partir de la firma del convenio de crédito (cada semestre empezado equivale a un semestre entero).

.../..

BANQUE DE L'UNION EUROPEENNE

Régimen fiscal : exento de todos impuestos y tasas presentes o futuros en la República Dominicana.

Garantía : la garantía del Ministerio de Finanzas de la República Dominicana será requerida.

2/. CREDITO FINANCIERO

Por otra parte, quisiéramos confirmarles que el BANQUE DE L'UNION EUROPEENNE queda listo para organizar un crédito financiero cuyas condiciones son las siguientes :

Importe : el importe será equivalente a los pagos a cuenta o sea los 15 % de la parte repatriable. Hoy en día, el importe alcanza FF.5.500.000.-.

Prestatario : AGRO MORA INDUSTRIAL C.A.

Moneda : Dólares de los Estados Unidos.

Utilización : a determinar con las disposiciones contractuales.

Duración : 5 años de la firma del contrato financiero.

Reembolso : por cuotas semestrales iguales y sucesivas, la primera semestralidad venciendo 30 meses después de la firma del contrato financiero.

Interes : Euro-Dólar a 6 meses en el mercado de Londres, más 1 3/4 % por año.

Comisión de gestión : US\$ 10.000 flat pagadera a la firma del contrato financiero.

Comisión de compromiso : 0,50 % por año sobre el saldo no utilizado del crédito, pagadera por cuotas semestrales, a plazo vencido.

Gastos : todos los gastos jurídicos y otros están a cargo del Prestatario.

Garantía : las mismas garantías que las requeridas para el convenio de crédito en Francos Franceses serán exigidas, a satisfacción del BANQUE DE L'UNION EUROPEENNE.

.../...

BANQUE DE L'UNION EUROPEENNE

Régimen fiscal : exentos de todos impuestos y tasas presentes o futuros en la República Dominicana, que de todo modo, correrán a cargo del Prestatario.

Validez de nuestra oferta : hasta el 30 de Septiembre de 1982.

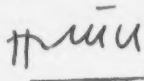
Esperamos haberles ofrecido un esquema de financiación global adaptado a las necesidades de su proyecto y quedamos a su entera disposición para cualquier información que Uds pudieran necesitar.

Sin otro particular, les saludamos muy atentamente.

BANQUE DE L'UNION EUROPEENNE



Didier LAVAL-CHARVET
Fonds de Pouvoir



Henri de MONTLEBERT
Sous Directeur

EXHIBIT II

Granga Mora,
Dominican Republic.

LE/VL/3-3107

22nd February, 1982

BULGE.

OF

ONE SIMON-ROSEDOVE VEGETABLE OILSEED AND OIL PROCESSING
INSTALLATION FOR 300 TONNES PER 24 HOURS OF WHOLE SOYA BEANS
COMPRISING SOYA PRE-TREATMENT, SOLVENT EXTRACTION AND MEAL AFTER
TREATMENT AND INCLUDING COMPLETE REFINING FOR 60 TONNES PER
24 HOURS OF CRUDE SOYA OIL

Comprising:

Section 1U.S. DollarsSoya Bean Pre-Treatment Plant

Process notes sheets 3S and 4S.

As per attached specification sheets 5S and 6S,
items 1.01 - 1.12 inclusive.

575,000

Section 2Solvent Extraction Plant and Meal Dry and Cooling

Process notes sheets 7S - 9S.

As per attached specification sheets 10S - 17S,
items 2.01 - 2.36 inclusive.

1,355,000

Section 3Extracted Meal Grinding, Screening and BaggingAs per attached specification sheet 18S,
items 3.01 - 3.07 inclusive.

205,000

Section 4Hulls Toasting, Grinding and BaggingAs per attached specification sheet 19S,
items 4.01 - 4.05 inclusive.

238,000

Cranga Mora,
Dominican Republic.

20

Section 5

Oil Handling

As per attached specification sheet 20S,
items 5.01 - 5.03 inclusive. 43,000

Section 6

Continuous Vegetable Oil Degumming Unit

As per attached specification sheet 21S,
items 6.01 - 6.11 inclusive. 165,000

Section 7

Continuous Neutralising Plant

As per attached specification sheets 22S - 24S,
items 7.01 - 7.23 inclusive. 351,000

Section 8

Rosedowns Continuous Bleaching Unit

Process notes sheet 25S.
As per attached specification sheets 26S - 28S,
items 8.01 - 8.21 inclusive. 174,000

Section 9

Rosedowns Econoflow Deodoriser

Process notes sheet 29S.
As per attached specification sheets 30S - 33S,
items 9.01 - 9.17 inclusive. 472,000

Section 10

Vegetable Oil Storage

As per attached specification sheet 34S,
items 10.01 - 10.04 inclusive. 198,000

Section 11

Steam Raising Equipment

As per attached specification sheets 35S and 36S,
items 11.01 - 11.12 inclusive. 196,000

Granga Mora,
Dominican Republic.

30

Section 12

Water Cooling Equipment

As per attached specification sheet 378,
items 12.01 - 12.06 inclusive.

152,000

Section 13

Power Generation and Distribution

As per attached specification sheet 388,
items 13.01 and 13.02.

915,000

TOTAL F.O.B.

5,039,000

U.S. Dollar:

Section 14

Supervisory Erection and Commissioning Services

Based on three Supervisory Erection Engineers for
a period of eight months and four Supervisory
Commissioning Engineers for a period of two
months. In the event that the services of these
engineers exceeds these periods, then additional
periods shall be at terms and prices agreed.
Terms and conditions as SRL. 1006.

USD 184,000

U.S. Dollar prices quoted are calculated on today's rate of
1.83 U.S. Dollars equals 1 Pound Sterling and if final contract
is required to be in U.S. Dollars then the dollar rate used will
be that ruling at the date of effective contract.

Packed for shipment and delivered F.O.B. U.K./N. European Port
of Seller's choice.

Subject to the attached conditions of contract RE/72.

This quotation is valid for 60 days.

The quoted prices are subject to escalation in accordance with
the attached condition SRL. 1553.

Order must give details of any necessary authority to import and
pay for the goods, stating the period of validity of such
authority.

Granga Mord,
Dominican Republic.

40

Standard Cash Terms of Payment

25% of the value payable as deposit with order.

75% of the value against shipping documents by Irrevocable Letter of Credit confirmed by a London Bank.

ALTERNATIVE

Special Export Terms of Payment

10% of the value with order.

10% of the value payable against shipping documents.

80% of the value payable in ten equal six-monthly instalments over five years with the first bill due six months after commissioning or 30 months from contract date, whichever is the sooner.

Interest at 10% per annum on the amount outstanding included in and payable with each instalment. Calculated from date of shipment.

Bank charges to your account.

Subject to the approval of the British and your own Authorities.

Or other such terms as may be mutually negotiated.

Delivery

7/10 months from receipt of official order with deposit and finalisation of all technical and commercial details to enable us to proceed.

EXHIBIT III

DE SMET
U.S.A.

December 10, 1981

GRANJA MORA C.por A.
A.P. 1538
SANTO DOMINGO, DOMINICAN REPUBLIC

Attn: Mr. Gregorio Mora
President

Gentlemen:

DSUSA Estimate 81.875.092 A
De Smet Soybean Processing Plant Project

Last December 2 I had occasion to comment on our estimate in English dated November 30 with you.

In reference to this matter I am happy to furnish you this complete estimate which has the following features:

- It is written entirely in Spanish
- It includes everything quoted in the N° 81.875.092 plus the supplemental equipment and options needed to constitute a partial "Key in hand" project as per assembly drawing N° DSUSA 414.

The option of processing 300 metric tons instead of 300 short tons of soybean is included as well as equipment for degumming oil.

By partial "Key in hand" we mean that the De Smet company will do the detail engineering and will furnish the metal buildings, processing equipment and auxiliary gear.

DeSmet will also make available to Granja Mora qualified engineers to supervise construction and start-up of equipment.

Granja Mora will undertake to furnish erection personnel and the civil engineering contractor.

The project breakdown includes a certain amount of auxiliary equipment. This list is not by any means final and we do not pretend that it is.

As a matter of fact only the detail engineering study which is to be carried out will enable us to arrive at more exact information on supplemental materials, especially electric connections, interconnecting piping between buildings, etc. . very difficult to evaluate concretely at this stage in the study.

You will note the details in which we have described the detail engineering portion of the project.

We feel that this method of operation is the only one which will permit a maximum saving of local expenses and we are confident that the quality of engineering furnished will be in line with the execution image of De Smet personnel.

For a better understanding of the total cost of the project we are attaching a price which itemizes what had been quoted previously and what has been added for this project.

On the basis of this total and considering all options the overall price of the project would amount to the sum of:

\$ 3,659,6000 dollars US Cy.

or its equivalent in BELGIAN FRANCS: 139,067,080.

This price is figured on a CIF Santo Domingo basis.

This price will remain firm of execution and decision up to January 15, 1982 and subject to execution of a contract between Granja Mora and De Smet USA Corporation

Delivery Schedule:

We estimate that the equipment and engineering specified in this estimate can be delivered CIF Santo Domingo within a time period of approximately 10 months.

Payment Terms:

Deferred payment terms can be provided for 80% of the total due on the project.

In the latter case the contract would be set up on the basis of Belgian francs and subject to the following terms:

10% in advance on signing contract

10% against shipping documents payable on first presentation through and divisible and irrevocable letter of credit.

80% Calculated in its equivalent in Belgian Francs in 10 six-month promissory notes, the first falling due six months after the main shipping date. These promissory notes cover capital plus interest figured at the rate of 10% on unpaid balances.

These exceptional payment terms may be "guaranteed" by means of payment of 1/8% of the amount being financed at the time negotiations begin.

In this way the interest rate is made firm and may not be changed later. The amount paid is considered a part of the advance payment when the contract goes into effect or is reimbursed in the event no agreement is reached.

The promissory notes in Belgian Francs will have to be covered by a bond issued by a bank or a first line insurance company.

This proposal with the information it contains is submitted confidentially to Granja Mora for its exclusive use and as part of the services of De Smet USA and may not be communicated to third parties without the prior written authorization of DSUSA.

We thank you for the opportunity you have given us of submitting this estimate for your consideration and we hope to have the opportunity of working with you.

sincerely

DE SMET U.S.A. CORPORATION

Guy L. Poeschelle
Vice President

ATTACHMENTS

EXHIBIT IV

USINE DE WECKER

S. à r. l.

SIEGE SOCIAL: WECKER (GRAND-DUCHÉ DE LUXEMBOURG)

FONDERIE ET ATELIER DE
CONSTRUCTION DE MACHINES

USINE DE WECKER S. à r. l. - L. 0000 WECKER

INMORIEC
HACIENDA "EL VERGEL"
Pedro Carbo No. 505 Piso 16
GUAYAQUIL, ECUADOR

VOTRE REF: _____

NOTRE REF: 82.01.20.371 A.

WECKER, January 14th, 1982

August 2, 1982

Translation via phone Mr. Smith to Ulene Shively:

- 10% With order
5% Against presentation of shipping documents
85% Financed over 5 years, payable in 10 six monthly installments.
The first falling due six months after shipment. Annual interest
- CONDICIONES FINANCIERAS**
- 10% fixed throughout the period of the transaction.

The financial costs of obtaining this credit with Luxemburge Institution is approximately 5% to be confirmed by the government of Luxemburge, who will have to approve all the other aspects of this credit, such as, the security, insurance and other matters.

10% con el pedido

5% Contra la presentación de los documentos de embarque.

85% Financiado a 5 años, pagadero en 10 cuotas semestrales,
venciendo la primera 6 meses después del embarque.
Interés anual del 10%, fijo a lo largo de la operación.

El costo financiero de obtener estas condiciones con los Ins-
titutor de crédito de Luxemburgo, es de aproximadamente 5%, a
ser confirmado por el gobierno de Luxemburgo quien también
deberá aprobar los demás aspectos de este crédito, como son
el cual, seguro y otros.

EXHIBIT V

CONTRACT

THE PRESENT CONTRACT ENTERED INTO AS OF THE _____ DAY OF _____ 1981.

BY AND BETWEEN: Weston Sunflower Corporation

with registered address at Box 343
Weston, Ohio 43569

hereafter called the OWNER.

REPRESENTED BY: Eldon Moomaw, President

AND: EXTRACTION DE SMET S.A.
265 Prins Boudewijnlaan
B-2520 Edegem-Antwerp
Belgium

hereafter called the SELLER.

REPRESENTED BY: Guy L. Posschelle

ARTICLE 3:PAYMENT CONDITIONS

The price mentioned in Section 2.1 will have to be paid by the OWNER to the SELLER in the following manner:

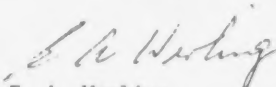
- 3.1 *10% 10/01* 10%, i.e. U.S. \$1,329,856 immediately after contract signature, to be transferred by cable to the SELLER's Bank Account 220/0032004/30 at Societe General de Banque, Antwerp, Belgium. This down payment is considered as a non-returnable deposit, which will be retained by the SELLER as a contribution to the expenses inherent in the CONTRACT in case of its cancellation for reasons other than the SELLER's failure or fault.
- 3.2 5%, i.e. U.S. \$664,928 payable against shipping documents at first presentation, on the basis of an irrevocable and divisible Letter of Credit, issued by a first class U.S.A. Bank and confirmed by a Belgian Bank; the Letter of Credit shall be opened by the OWNER and remitted to the SELLER no more than one month after contract signature and should be valid for 12 months; it should permit that the equipment is of European and/or American origin and allow partial shipment from any port.
- 3.3 *2 1/2 yrs grace
2 yrs to pay
9.25%* 85%, i.e. U.S. \$11,303,776 through ten semiannual installments, the first installment maturing 30 months after receipt of the down payment (Section 3.1); the second draft will fall due six months from the maturity of the first draft and so on in such a way that the tenth draft will fall due 84 months after receipt of the down payment (Section 3.1). These installments cover capital plus interest. The interest is computed at the rate of 9.25% annually starting 12 months after contract signature. The drafts in U.S. dollars are payable in Belgium at maturity date. These drafts will be issued by the SELLER upon contract signature, accepted by the OWNER and sent to the SELLER within 60 days from contract signature.
- 3.4 The ten Bills of Exchange will be guaranteed by an irrevocable Letter of Credit to be opened by a first class U.S. Bank and sent to the SELLER with the drafts accepted by the OWNER 60 days after receipt of down payment (Section 3.1).
- 3.5 The financial terms and conditions of the CONTRACT are subject to final approval of the Belgian Finance Authorities. Upon the signing of this Agreement, SELLER shall exert best efforts to obtain such approval.

Subcommittee on International Finance and Monetary Policy
Senate Committee on Banking, Housing and Urban Affairs

Testimony Concerning the Export-Import Bank of the United States

SUBJECT: Supplemental Information Presented on September 16, 1982
Concerning the Testimony of Evan A. Werling, Vice President -
Finance, The French Oil Mill Machinery Company

The attachment is a \$6,500,000.00 contract lost to our Belgian competitor, Desmet. As can be noted from the cover letter addressed to the U.S. Eximbank, French Oil underbid the Belgian competitor; however, interest rates available from Belgium were very low -- thus making financing from the United States totally non-competitive. In this situation, as well as others, our company has not been able to obtain competitive financing from the U.S. Export-Import Bank.


E. A. Werling

EAW/dlm

Attachment

*Contract awarded to De Lmst during fiscal 1982
Contract Value \$6,500,000 U.S.D.*

April 7, 1981

Mr. Don Stengel
Export-Import Bank
811 Vermont Avenue, N. W.
Washington, D. C. 20571

Dear Mr. Stengel:

We attach herewith a copy of financing offered to General Organization For Industrialization in Cairo by our Belgian competitor. Our prices are 10% under the Belgian prices before adding the 2-1/2% finance fee, or 13% under on the final price.

When we have to offer regular commercial rates in the United States in competition with this type of financing, we are "out of the business."

Is there anything that the Export-Import Bank can do to help in arranging comparable financing, taking into account that our prices are 10% lower than the competitor's?

Very truly yours,

THE FRENCH OIL MILL MACHINERY COMPANY

W. G. Bair
Vice President - Finance

WCB/dlm/dpf/vmb/dkb/gaw

Attachment

C
O
P
Y

N.V. EXTRACTION

DE SMET

 S.A.

JVH/vdg

Edegem, May 30th, 1980.

ENVELOPE A

Messrs. GENERAL ORGANIZATION
FOR INDUSTRIALIZATION,
6, Khalil Agha Street
Garden City
CAIRO
A.R.E.

Dear Sirs,

Re : Your tender dated 29/4/1980 for supply and erection of
three solvent extraction plants.
- Our quotation n° 80.05.15 -

According to your adjusted call for tender, we enclose herewith
our technical specifications for plant and machinery of the
solvent extraction units to be supplied to

- CAIRO OILS & SOAP Co.
- MISR OILS & SOAP Co.
- NILE OILS & SOAP Co.

We have carefully studied your general conditions and we do
accept the contents in general.

However some minor points may have to be clarified before drawing
up a final agreement and some terms may have to be slightly
amended to suit correctly the requirements of our authorities.

The given prices under envelope B are based on cash payment as
mentioned under ARTICLE 5 a) of your general conditions.

According to para b) of same article, we can offer conditions as
follows.

These conditions are subject to the approval of the Belgian
financial authorities :

10% with the order;

10% by irrevocable Letter of Credit in Belgian Francs, payable
against shipping documents upon first presentation. This
L/C should allow shipment of goods from West European and
United States origin.

80% by 10 sixmonthly instalments, plus interest at ~~7.5%~~ p.a. payable every six months on the unpaid balance. These instalments plus interests will be covered by drafts in Belgian Francs, domiciliated in Belgium. First draft payable 6 months after completion of main shipment. The drafts will be drawn by us immediately on receipt of the downpayment and sent to you for acceptance. You will have them guaranteed for payment by a first bank of your country, which will then send them within 30 days to a Belgian Bank. This Belgian Bank will keep them as "Trustee" with instructions to remit them to us duly completed with the different maturity dates, at time of main shipment. Main shipment is considered to be achieved, when according to our invoices, 80% of the equipment value has been shipped.

~~A slight increase of the prices (above 7.5%) will result in this case of the financial costs and increased political insurance premium.~~

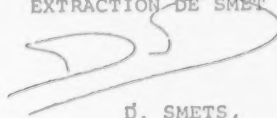
Regarding para c) government credit, we confirm that a relatively important credit is available. However at this stage we are not in a position to obtain the approval of the Egyptian authorities, as one of the conditions of the state to state credit is that only the Egyptian government decides what it will be used for.

We are ready to investigate what the procedures will be for you to be granted the advantages of said credit.

Awaiting your comments on our tender with the highest interest, we remain, dear Sirs,

Faithfully yours,

EXTRACTION DE SMET S.A.



D. SMETS,
General Manager.

Senator HEINZ. Mr. Werling, you've made an excellent presentation, both in your written testimony, which is replete with examples and documentation, and in your oral testimony, which has been exceptional.

I might also add, Mr. Best, you submitted a very lengthy additional statement, which is also extremely valuable in the same respect.

I thank you both for that.

And I want to call on Mr. Weaver.

STATEMENT OF HAROLD E. WEAVER, SENIOR VICE PRESIDENT AND MANAGER, DATA GRAPHICS, CONTINENTAL GRAPHICS, CULVER CITY, CALIF.

Mr. WEAVER. Thank you, Mr. Chairman, for the invitation to appear before this distinguished committee.

My name is Hal Weaver. I am a senior vice president of Continental Graphics. Continental Graphics is a reproduction and data management company involved in the production of parts documentation for commercial aircraft, jet engines, trucks and nuclear power plants.

We have been in the graphics business in the southern California area for over 50 years.

I'm here today to try to save our jobs. To add one more voice in the attempt to identify what is really at stake with the Export-Import Bank and S. 2600.

UNEMPLOYMENT INCREASING

There are 10 million unemployed people in the United States and their ranks are growing. For once, you in Congress have the opportunity to save jobs, without jeopardizing the budget, without Government subsidies, and without competing for moneys badly needed elsewhere.

The jobs I'm speaking of are the jobs belonging to the employees of the more than 4,000 suppliers to the commercial aircraft industry.

My company, Continental Graphics, employs approximately 1,200 people in Los Angeles, Culver City, Irvine, and San Diego, Calif.—a payroll of more than \$2 million monthly. The majority of employees' jobs are directly tied to the sales of American exports; 60 percent of our sales are involved with commercial aircraft and with companies such as Peterbilt and International Harvester trucks, Avco Lycoming engines, Rohr Industries engine build-up systems, and General Electric nuclear powerplants.

In 1978, we developed a program to train new data analysts and illustrators for our business. A special program funded by our company that literally took people off the streets and put them immediately to work—young, old, black and white. Given strong commercial aircraft sales, we have been able to put to work more than 250 previously unemployed people; 250 is a small number perhaps by some standards, but certainly significant to the individuals and families involved and significant to our business. We were and are providing real jobs in private industry through commercial initia-

tive, precisely as encouraged and promoted by the current administration.

Over the past 2 years, faced with the continued loss of aircraft sales to foreign, subsidized competitors, we have had to dramatically reduce our training efforts and, in fact, are beginning to let good people go.

Gentlemen, this does not have to happen in the aircraft industry. We cannot continue to let it happen. If we do not get governmental recognition of the importance of exports on employment, we will eventually see most of our personnel move to the roles of the unemployed, no longer paying taxes and truly needing Government handouts, and not just people in Culver City, Calif. but people in your States as well. Remember, once a new model aircraft sale is lost, it may be 15 to 20 years before the airline again looks to a replacement. That means jobs lost forever for many of us.

Since the majority of today's commercial aircraft sales are to foreign operators, we must be able to compete with the foreign subsidized aircraft manufacturers. If we cannot compete on the basis of the best product and the best service, then we will not survive.

The real irony of this debate is that the mechanism to keep this industry alive and healthy exists. It exists in the form of the Export-Import Bank, an organization that does not compete for taxpayer funds since it is completely self-supporting.

As I personally have become more knowledgeable of the Eximbank, I also have become more and more astonished that it doesn't receive the complete and unanimous support of the Government and the U.S. media. No matter how deeply I look into the Eximbank, I do not find anything that could endanger the country or any taxpayer.

EXIMBANK BECOMES A POLITICAL FOOTBALL

Why, then, if this is such a good thing, are we here pleading to keep it alive? Why? Simply because of ignorance. Eximbank, has become a political football.

This administration's Director of the Office of Management and Budget, David Stockman, stated in the now famous Atlantic Monthly article that he felt it politically necessary to reduce Eximbank to show he was willing to cut a program for big business at the same time he was cutting programs for the poor.

The arguments the OMB uses reflects its real lack of knowledge and, it would appear, its concern for the unemployment picture. The administration wants to get people off welfare and back to work, but the actions and arguments of the OMB for restricting Eximbank funds and policies have precisely the opposite effect, in my opinion.

Statements by public officials with the high ranking status of Mr. Stockman go a long way toward adding to the ignorance of the issue. The media prints headlines that display to the public "Exim Is a Big Corporate Giveaway, A Subsidy for Big Business." I have such an article from the Los Angeles Times. The public, most of whom have never heard of Eximbank, then pick up the same cry.

Well-intentioned Congresspersons, many of whom, unfortunately, also do not know much about Eximbank, then vote to reduce its capabilities.

I and the majority of my employees have written to your colleagues in the Senate and House, and you would be appalled at the lack of knowledge and confusion among many of your colleagues over Eximbank.

Mr. Stockman's approach may very well cut deeply into big business, as he says he wants. Most of these big businesses, however, will survive in one form or another. It is the small businesses that are becoming the real losers and, sadly, most will probably go under.

It is the small companies like mine that were and are the backbone of much of this country's business successes that are really dependent on a healthy Eximbank.

Please do not let Eximbank become a casualty in this political fight.

While we are debating the Eximbank, foreign competition is taking our business and jobs away. You only need to look to automobiles, steel, motorcycles, nuclear power, and the electronics industry to see what will become of the commercial aircraft industry if you do not act now.

We must have a strong Eximbank, both in funding and policy, if we are to survive. Everyone supports free trade, but we will never be able to negotiate enforceable agreements to create free trade unless we have the leverage. Today, leverage means equalizing financing.

According to the Department of Commerce, \$1 billion of commercial export sales provides over 30,000 jobs—jobs that feed families and pay taxes, jobs located in almost every State in the Union.

Gentlemen, today I make this promise to you. We, the invisible exporters, will work to educate the media and the public if you will support us with your influence and votes.

Thank you, Mr. Chairman.

Senator HEINZ. Mr. Weaver, thank you.

You are one of literally hundreds of thousands of invisible exporters that benefit enormously and substantially from the activities of the Eximbank. We often talk about you.

Mr. WEAVER. Yes.

Senator HEINZ. Your name is often raised in vain.

Mr. WEAVER. Yes, today is my first day in Washington, and I hear that a lot.

Senator HEINZ. It's nice to see the invisible in flesh in blood.

We're grateful to you. Thank you very much.

Ms. Foote.

STATEMENT OF VIRGINIA B. FOOTE, ASSOCIATE DIRECTOR, CENTER FOR DEVELOPMENT POLICY

Ms. FOOTE. Mr. Chairman, I am Virginia Foote, Associate Director of the Center for Development Policy.

I'd like to thank the committee for this opportunity to discuss current practices and the future role of the Export-Import Bank.

The Center, too, feels that unemployment is a serious problem facing the United States today that needs immediate attention as a national policy issue. The companies that have enjoyed most of Eximbank financing, particularly the nuclear and aircraft industry, have asserted that their exports produce enough jobs in the United States to justify the traditional lending program of the Bank.

At the end of fiscal year 1981, the Export-Import Bank carried an exposure of nearly \$40 billion for products sold by a few companies to foreign countries, mostly in the Third World.

Congress must evaluate this \$40 billion investment and then determine the scope of future investments for the Export-Import Bank.

In short, are the American people receiving \$40 billion worth of jobs and other benefits for their investment.

To help Congress evaluate this investment, I would like to raise four basic questions:

One, how much does the Export-Import Bank actually cost the U.S. taxpayer?

Second, who benefits from the Bank's proposals, and are small businesses getting their share?

Third, how risky is the Bank's portfolio.

And fourth, can the Bank's accounting procedures be changed to more clearly show its true financial position?

COST TO U.S. TAXPAYER

The Export-Import Bank attempts to encourage the foreign purchase of U.S. goods by offering below-market financing for certain U.S. products. Supporters of the Bank have often claimed that the agency costs the taxpayer nothing because it does not receive direct appropriations. Instead, the Bank is able to borrow funds from the U.S. Treasury through the Federal Financing Bank at low Government rates. But the fact that Eximbank is offering below-market rates must mean that somebody is receiving a subsidy and somebody is bearing the cost.

By offering below-market rates, Eximbank has been giving the owners of the agency, who are the taxpayers, a below-market return on their investment. The Congressional Budget Office has estimated the subsidy to be as high as \$900 million annually.

Currently, the Eximbank owes the U.S. Treasury \$15.6 billion. As interest rates to individuals and the private sector have soared in this country, the public has learned a painful fact. The more the Government borrows from capital markets, the less money is available in the private sector, and the cost of money goes up. \$15.6 billion represents a substantial drain on the U.S. economy. In the private sector, \$15.6 billion could be available for homes, for small businesses, and for investments.

These are the real costs of the bank to the U.S. economy.

And who benefits?

For the past several years, two industries, the nuclear and the aircraft, have enjoyed 50 percent of Eximbank's total lending. In 1980, seven firms received two-thirds of Eximbank's direct loans. And in 1981, one firm, Boeing, received an incredible 45 percent of the total credits authorized, totally \$2.3 billion.

AIRCRAFT AND NUCLEAR INDUSTRIES MOVE OVERSEAS

The aircraft and nuclear industries both argue that their contributions to U.S. employment, U.S. national security, and U.S. foreign policy entitle them to U.S. public financing. While they make these arguments, they are setting up subsidiaries, affiliates, and other arrangements in other countries. They do not have an obligation to employ the U.S. public, nor do they have an obligation to the United States. They have the ability to move overseas, and they are.

By exporting from the United States, the nuclear industry has been able to avoid site safety and reactor design requirements of the United States. This practice of "let the buyer beware" means the Eximbank has invested billions of dollars in substandard reactors that are being built on substandard sites.

The costs of the Three Mile Island clean-up is now \$1 billion. What will happen to a country's ability to repay Eximbank if the U.S.-financed nuclear reactor has such an accident due to either design, siting, or even operational mistakes?

And the nuclear industry feels no obligation to keep its production facilities in the United States. Through licensing arrangements with subsidiaries and affiliates, the U.S. nuclear industry is situating itself offshore.

The French company Framatome, for example, which the nuclear industry cites as its most aggressive rival, until just recently operated under a Westinghouse license, was partially owned by Westinghouse, and paid Westinghouse substantial royalties.

In addition, purchasing countries are requiring a large number of jobs associated with reactor design and construction be given to workers in the importing country.

This spring Eximbank offered Taiwan one of the largest loans in the history of the Bank, for over \$800 million.

Eximbank loans have increased in value, but have the number of jobs and the number of people employed in this country also increased? How much employment will go to Taiwan if this deal goes forward?

The aircraft industry, like the nuclear industry, has been becoming increasingly international. Airbus Industries uses GE engines. Several U.S. manufactured airplanes use British Rolls Royce engines. Airbus provides sales to U.S. G.E. workers. Boeing sales increase employment in Britain.

And Boeing is reported to be negotiating with the Japanese aircraft industry for a joint venture, which will undoubtedly mean the exporting of engineering, construction, and design jobs to the Japanese.

In the United States, several airlines are on the verge of collapse. They need to replace older planes with new fuel-efficient planes that are the proper size for the most frequently traveled routes. But the airlines do not have the capital to finance these vital purchase and are finding it increasingly difficult to borrow it. But they are not eligible for Eximbank financing.

I'd like to move on to the portfolio of the Bank.

COUNTRIES UNABLE TO REPAY EXIMBANK

In the past year, the world has witnessed an increasing number of countries buckling under the weight of extremely heavy external debt. As a public lending institution, Eximbank is normally the last in line for repayment when a country must reschedule its foreign debt. Previously, this might not have mattered. But in the last few months, the numbers of countries that are unable to make payments on their foreign debt has increased dramatically. Mexico and Argentina, two countries recently experiencing difficulty, owe Eximbank a total of \$3.4 billion, more than the Bank's total reserve for contingencies and default.

Eximbank reports rollover debts in Peru, Mexico, Zaire, and Turkey. And it reports Uganda, Liberia, Iran, Brazil, Jamaica, Poland, and Rumania are delinquent. And the situation is getting worse.

Frost and Sullivan reports in 1981 that 45 countries that owe Eximbank have a 25 percent or greater chance of causing major business losses in the next 5 years. These countries owe Eximbank \$22.8 billion, which is 68 percent of Eximbank's total exposure.

Just weeks before Mexico fell into financial crisis, Eximbank offered Mexico preliminary commitment to finance the export of two U.S. nuclear reactors. Mexico already had external debt of \$80 billion, and it had been delinquent on loans to the Eximbank consistently since 1975.

Yet, Eximbank was willing to commit another enormous financing package to Mexico for their nuclear power industry.

The Government Accounting Office has warned, in 1975, that "Eximbank is in financial difficulty. Its risk of incurring possible losses has increased significantly and will continue to increase."

Recently, "Institutional Investor" quoted an international banker as saying, "Conservatism will be the name of the game in the 1980s, and with all the rescheduling in the world today, there isn't much appetite for international assets."

The Export-Import Bank cannot be expected to see into the future. But Eximbank should not be allowed to gamble the wealth of the United States on the political and financial fortunes of foreign countries, nor should U.S. alliances be created or maintained out of fear of default. This is having a serious effect on our foreign policy and on the economies of the world. Can we afford that cost?

EXIMBANK ACCOUNTING PROCEDURES

My final point has to do with Eximbank's accounting procedures.

Eximbank is not required to use the generally accepted accounting procedures, and it doesn't. This means that "profits" shown in the annual report are exaggerated.

Eximbank is not required to write off bad loans or late interest payments in a timely fashion. It still carries prerevolutionary loans to Cuba and China as collectable assets.

Also, unlike private banks, Eximbank includes in its net income uncollected interest on delinquent loans. In 1978, this accounted for 7.9 percent of the Bank's reported income and doubled in the next year. In 1980, uncollected interest accounted for an incredible 84.5 percent of the Bank's reported net income.

Because of these questionable accounting methods, the Bank's 1980 annual report shows a \$110 million profit. In fact, Eximbank was \$178 million behind what they reported. Uncollected interest fees and loans in 1981 actually brought the year's loss to \$31 million.

In 1980, Eximbank reported a reserve of \$2.18 billion, which you pointed out earlier, Mr. Chairman. But \$468 million, or 21 percent of that reserve, is uncollected.

In closing, the money in the U.S. Treasury belongs to the American public. Congress has an obligation to see that this money is well invested. We urge you to take a careful and realistic look at the safety and the use of the investment of public funds in the Export-Import Bank before renewing Eximbank's charter in 1983.

Thank you.

[The complete statement follows:]

STATEMENT
OF
VIRGINIA B. FOOTE
ASSOCIATE DIRECTOR
CENTER FOR DEVELOPMENT POLICY

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM VIRGINIA FOOTE, ASSOCIATE DIRECTOR OF THE CENTER FOR DEVELOPMENT POLICY.

I WOULD LIKE TO THANK THE COMMITTEE FOR THIS OPPORTUNITY TO DISCUSS THE CURRENT PRACTICES AND THE FUTURE ROLE OF THE EXPORT-IMPORT BANK. IT IS OUR SENSE THAT CONGRESS MUST TAKE A CAREFUL AND REALISTIC LOOK AT THE COSTS AND BENEFITS OF THE BANK. IN THESE TIMES OF HIGH UNEMPLOYMENT, THE ARGUMENTS IN FAVOR OF THE EXIMBANK HAVE CENTERED AROUND ITS ABILITY TO CREATE JOBS. THE CENTER TOO FEELS THAT UNEMPLOYMENT IS A SERIOUS PROBLEM FACING THE UNITED STATES TODAY, AND NEEDS IMMEDIATE ATTENTION AS A NATIONAL POLICY ISSUE. THE COMPANIES THAT HAVE ENJOYED EXIMBANK FINANCING ASSERT THAT THEIR EXPORTS PRODUCE ENOUGH JOBS IN THE UNITED STATES TO JUSTIFY THE TRADITIONAL LENDING PROGRAM OF THE BANK.

AT THE END OF FY 1981, THE EXPORT-IMPORT BANK CARRIED AN EXPOSURE OF NEARLY \$40 BILLION FOR PRODUCTS SOLD BY A FEW COMPANIES TO FOREIGN COUNTRIES, MOSTLY IN THE THIRD WORLD. CONGRESS MUST EVALUATE THIS \$40 BILLION INVESTMENT AND THEN DETERMINE THE SCOPE OF FUTURE INVESTMENTS BY THE EXPORT-IMPORT BANK. IN SHORT, ARE THE AMERICAN PEOPLE RECEIVING \$40 BILLION WORTH OF JOBS AND OTHER BENEFITS FOR THEIR INVESTMENT?

TO HELP CONGRESS EVALUATE THE INVESTMENT, I WOULD LIKE TO RAISE FOUR BASIC QUESTIONS: 1. HOW MUCH DOES THE BANK ACTUALLY

COST THE U.S. TAXPAYER? 2. WHO BENEFITS FROM THE BANK'S PROGRAMS? 3. HOW RISKY IS THE BANK'S PORTFOLIO AND HOW WILL MAJOR BANK LOSSES BE COVERED? 4. HOW CAN THE BANK'S ACCOUNTING PROCEDURES BE CHANGED TO SHOW MORE CLEARLY ITS TRUE FINANCIAL POSITION?

I. HIDDEN COSTS OF THE BANK

THE EXPORT-IMPORT BANK ATTEMPTS TO ENCOURAGE THE FOREIGN PURCHASE OF U.S. GOODS BY OFFERING BELOW-MARKET FINANCING FOR CERTAIN U.S. PRODUCTS. SOME SUPPORTERS OF THE BANK CLAIM THE AGENCY COSTS THE TAXPAYER NOTHING BECAUSE IT DOES NOT RECEIVE DIRECT APPROPRIATIONS. INSTEAD THE BANK IS ABLE TO BORROW FUNDS FROM THE U.S. TREASURY THROUGH THE FEDERAL FINANCING BANK AT LOW GOVERNMENT RATES. BUT THE FACT THAT EXIMBANK OFFERS LOANS AT BELOW-MARKET RATES MEANS THAT SOMEBODY IS RECEIVING A SUBSIDY AND SOMEBODY IS BEARING THE COST.

BY OFFERING BELOW-MARKET RATES, EXIMBANK HAS BEEN GIVING THE OWNERS OF THE AGENCY -- THE TAXPAYER -- A BELOW-MARKET RETURN ON THEIR INVESTMENT. THE DIFFERENCE BETWEEN WHAT THE INVESTMENT COULD HAVE BEEN MAKING AND THE RETURN THE EXIMBANK ACTUALLY MADE HAS BEEN A LARGE AND HIDDEN COST TO THE TAXPAYERS. THE FEDERAL RESERVE BANK OF MINNEAPOLIS' SENIOR ECONOMIST ESTIMATES THE SUBSIDY THE TAXPAYER PAYS EACH YEAR TO BE AT LEAST HALF A BILLION DOLLARS.¹ THE CONGRESSIONAL BUDGET OFFICE HAS ESTIMATED THE SUBSIDY TO BE AS HIGH AS \$900 MILLION.² THE CURRENT ADMINISTRATION HAS CALLED THE BANK A DRAIN ON THE U.S. ECONOMY.³

CURRENTLY THE EXIMBANK OWES THE U.S. TREASURY \$15.6 BILLION. AS INTEREST RATES TO INDIVIDUALS AND THE PRIVATE SECTOR HAVE SOARED IN THIS COUNTRY, THE PUBLIC HAS LEARNED A PAINFUL FACT. THE MORE THE FEDERAL GOVERNMENT BORROWS FROM CAPITAL MARKETS THE LESS MONEY

IS AVAILABLE IN THE PRIVATE SECTOR AND THE COST OF MONEY GOES UP. THE \$15.6 BILLION REPRESENTS A SUBSTANTIAL DRAIN ON THE U.S. ECONOMY. IN THE PRIVATE SECTOR THE \$15.6 BILLION COULD BE AVAILABLE FOR HOMES, BUSINESS AND INVESTMENT. AND IN THE PRIVATE SECTOR THE FULL MULTIPLIER EFFECT ON EMPLOYMENT OF THIS \$15.6 BILLION INVESTMENT WOULD BE REALIZED IN THE UNITED STATES -- NOT EXPORTED TO FOREIGN COUNTRIES.

THESE ARE REAL COSTS OF THE BANK TO THE U.S. ECONOMY.

¹ JOHN H. BOYD, SENIOR ECONOMIST AT THE FEDERAL RESERVE BANK OF MINNEAPOLIS REPORTED, "THE DIFFERENCE BETWEEN EXIMBANK'S EARNINGS AND THE EARNINGS AVAILABLE IN THE PRIVATE MARKETPLACE, THEN, IS THE AMOUNT TAXPAYERS LOSE AS A RESULT OF EXIMBANK'S EFFORTS TO ENCOURAGE EXPORTING BY OFFERING IMPORTERS CHEAP LOANS." FEDERAL RESERVE BANK OF MINNEAPOLIS, QUARTERLY REVIEW, WINTER, 1982.

² THE CONGRESSIONAL BUDGET OFFICE REPORTED IN MARCH 1981 THAT IT, "FINDS THAT U.S. CITIZENS WHO ARE NOT BENEFICIARIES OF THE PROGRAM PAY AN ADDITIONAL INTEREST RATE OF BETWEEN \$200 MILLION AND \$900 MILLION ANNUALLY. THE REPORT IS UNABLE TO DOCUMENT ANY OFFSETTING GAINS IN ECONOMIC EFFICIENCY OR IN ACHIEVING FOREIGN POLICY OBJECTIVES."

³ REAGAN ADMINISTRATION, "A PROGRAM FOR ECONOMIC RECOVERY", 1981: "...THE BANK'S SUBSIDY TO FOREIGN BORROWERS RESULTS IN A LOW RATE OF RETURN TO THE U.S. ECONOMY AND A DRAIN ON CAPITAL THAT REDUCES OR ELIMINATES THE BENEFITS FROM TRADE."

II. WHO BENEFITS?

EXIMBANK HAS BECOME THE PRIVATE LENDING AGENCY FOR A HANDFUL OF LARGE, PROFITABLE CORPORATIONS. FOR THE PAST SEVERAL YEARS TWO INDUSTRIES -- NUCLEAR AND AIRCRAFT -- HAVE ENJOYED 50% OF EXIM'S TOTAL LENDING. IN 1980 SEVEN FIRMS RECEIVED TWO-THIRDS OF EXIM'S DIRECT LOANS, AND IN 1981 ONE FIRM RECEIVED AN INCREDIBLE 45% OF THE TOTAL CREDIT AUTHORIZED.

THE NUCLEAR AND AIRCRAFT INDUSTRIES BOTH ARGUE THAT THEIR CONTRIBUTIONS TO U.S. EMPLOYMENT, U.S. NATIONAL SECURITY AND U.S. FOREIGN POLICY ENTITLE THEM TO U.S. PUBLIC FINANCING. WHILE THEY MAKE THESE ARGUMENTS, THEY ARE SETTING UP SUBSIDIARIES, AFFILIATES AND OTHER ARRANGEMENTS IN OTHER COUNTRIES, AND ARE IN NO WAY BEHAVING AS THOUGH THEY HAVE AN OBLIGATION TO U.S. LABOR OR THE UNITED STATES IN GENERAL.

A. THE NUCLEAR INDUSTRY

THE NUCLEAR INDUSTRY IS IN SERIOUS TROUBLE IN THE UNITED STATES. IT HAS NOT RECEIVED A SINGLE ORDER FOR A NUCLEAR REACTOR IN FIVE YEARS. SINCE 1974 HUNDREDS OF REACTORS HAVE BEEN DELAYED OR CANCELLED. THE INDUSTRY CALLS THIS A LULL, AND IT MAY WELL BE. BUT IT IS NOT A LULL DUE TO FOREIGN COMPETITION. THE INDUSTRY IS IN SERIOUS TROUBLE HERE FOR ECONOMIC REASONS, SAFETY PROBLEMS, AND A SLOWDOWN IN ENERGY CONSUMPTION.

THIS LULL IN THE MARKET FOR NUCLEAR REACTORS IS WORLDWIDE. THE CAPACITY FOR PRODUCING NUCLEAR REACTORS IN EACH OF THE SUPPLIER NATIONS FAR EXCEEDS THE DOMESTIC DEMAND. THE INDUSTRY WORLDWIDE IS DESPERATE FOR FOREIGN SALES. THE BENEFITS OF EXPORTING FOR THE U.S. NUCLEAR INDUSTRY ARE SUBSTANTIAL.

EXIM HAS OFFERED BARGAIN FINANCING WHICH HAS MADE PURCHASING POSSIBLE FOR COUNTRIES WHO COULD NOT OTHERWISE AFFORD THE REACTORS. BY EXPORTING, THE INDUSTRY IS ABLE TO AVOID THE SITE SAFETY AND REACTOR DESIGN REQUIREMENTS OF THE U.S. THIS PRACTICE OF 'LET THE BUYER BEWARE' MEANS THAT EXIM HAS INVESTED BILLIONS OF DOLLARS IN SUBSTANDARD REACTORS ON SUBSTANDARD SITES. THE COSTS OF THE THREE MILE ISLAND CLEAN UP HAVE BEEN ESTIMATED AT OVER \$1 BILLION. HAS EXIMBANK CONSIDERED THE EFFECT OF SUCH AN ACCIDENT ON A COUNTRY'S ABILITY TO REPAY EXIM IF A U.S. FINANCED NUCLEAR REACTOR HAS SUCH AN ACCIDENT DUE TO EITHER DESIGN, SITING, OR EVEN OPERATIONAL MISTAKES?

THE NUCLEAR INDUSTRY FEELS NO OBLIGATION TO KEEP ITS PRODUCTION FACILITIES IN THE UNITED STATES. THROUGH LICENSE ARRANGEMENTS WITH SUBSIDIARIES AND AFFILIATES, THE U.S. NUCLEAR INDUSTRY HAS SITUATED ITSELF OFF SHORE. FOR EXAMPLE, WESTINGHOUSE CAN PRODUCE ALMOST AN ENTIRE NUCLEAR POWER REACTOR, IN SPAIN, THROUGH AN AFFILIATE.

THE FRENCH COMPANY, FRAMATOME, WHICH THE NUCLEAR INDUSTRY CITES AS ITS MOST AGGRESSIVE RIVAL, WAS UNTIL RECENTLY OPERATED UNDER A WESTINGHOUSE LICENSE, PARTIALLY OWNED AND CONTROLLED BY WESTINGHOUSE, AND PAID WESTINGHOUSE SUBSTANTIAL ROYALTIES. WE ARE UNCLEAR ABOUT WESTINGHOUSE'S NEW AGREEMENT WITH FRAMATOME BUT KNOW THAT WESTINGHOUSE, AT MINIMUM, STILL RECEIVES ROYALTIES FROM FRAMATOME.

PURCHASING COUNTRIES ARE REQUIRING THAT GREATER NUMBERS OF JOBS ASSOCIATED WITH THE REACTOR DESIGN AND CONSTRUCTION BE GIVEN TO WORKERS IN THE IMPORTING COUNTRIES. TAIWAN NOW HAS SIX REACTORS UNDER CONSTRUCTION OR OPERATING AND HAS PLANNED TO ORDER TWO MORE.

HOW MANY JOBS WILL AN EXIM LOAN CREATE WHEN THE IMPORTING COUNTRY SUPPLIES CONSTRUCTION AND DESIGN LABOR? WITH EACH NUCLEAR EXPORT TO TAIWAN AND OTHER NATIONS WITH EVEN MORE ADVANCED NUCLEAR PROGRAMS, AMERICAN WORKERS LOSE JOBS AS CITIZENS OF THE IMPORTING COUNTRIES LEARN THE SKILLS TO TAKE THEIR JOBS. EXIM LOANS HAVE INCREASED IN VALUE, BUT THEIR EFFECT ON U.S. EMPLOYMENT HAS PROBABLY DECREASED.

EXIMBANK HAS FINANCED THE EXPORT OF URANIUM FUEL TO COUNTRIES KNOWN TO BE INTERESTED IN THE NUCLEAR WEAPONS POTENTIAL OF THEIR NUCLEAR POWER PROGRAMS, NOTABLY ARGENTINA, SOUTH KOREA, TAIWAN AND BRAZIL.

IN 1980, JOHN MOORE, PRESIDENT OF THE BANK, SUMMED UP EXIM'S COMMITMENT TO THE NUCLEAR INDUSTRY, "HISTORICALLY, THE EXPORT-IMPORT BANK HAS PROBABLY BEEN THE NUCLEAR POWER EXPORT INDUSTRY'S BEST FRIEND IN THE U.S. GOVERNMENT." [ADDRESS TO ATOMIC INDUSTRIAL FORUM]

1. TAIWAN

THIS SPRING EXIMBANK OFFERED TAIWAN ONE OF THE LARGEST LOANS IN THE HISTORY OF THE BANK -- \$855 MILLION IN DIRECT LOANS -- FOR THE PURCHASE OF TWO NUCLEAR REACTORS TO BE BUILT ON THE FLANK OF A VOLCANO IN ONE OF THE MOST DENSELY POPULATED AND MOST EARTHQUAKE PRONE AREAS OF THE WORLD. THE LOAN PACKAGE EQUALS 22% OF EXIMBANK'S ENTIRE 1982 BUDGET. TAIWAN CURRENTLY OWES EXIM \$2.241 MILLION -- 6.7% OF THE BANK'S PORTFOLIO.

THE FINANCIAL PACKAGE IS DESCRIBED BY AN INDUSTRY OFFICIAL AS "A VERY SPECIAL ARRANGEMENT FOR TAIWAN, WHICH HAS A LOT OF FRIENDS IN THIS ADMINISTRATION", AND IS REPORTED TO BE THE DIRECT RESULT OF INTERVENTION FROM THE WHITE HOUSE.

THERE IS PROBABLY NO PLACE IN TAIWAN THAT WOULD MEET U.S. STANDARDS FOR REACTOR SITING. FOUR NUCLEAR POWER REACTORS -- NOT JUST ONE, BUT FOUR -- HAVE BEEN SITED ON AN ACTIVE VOLCANO STRUCTURE, IN A FAULT-RIDDEN, HIGHLY SEISMIC REGION AT THE NORTHERN TIP OF TAIWAN JUST 12 MILES FROM TAIPEI'S ONE-AND-A-HALF MILLION PEOPLE.

TWO MORE REACTORS ARE UNDER CONSTRUCTION AT TAIWAN'S SOUTHERN EXTREMITY, DIRECTLY STRADDLING A GEOLOGIC FAULT WHICH IS AT LEAST 240 MILES LONG AND THUS VULNERABLE TO SEVERE EARTHQUAKE SHOCK. THE EXPORT-IMPORT BANK HAS FINANCED ALL OF THEM, AND IS COMMITTED TO FINANCE TWO MORE. WHAT HAPPENS TO THE "REASONABLE ASSURANCE OF REPAYMENT" IF A DISASTER OCCURS AT ONE OF THESE REACTORS?

2. BRAZIL

IN MAY 1982, BRAZIL ANNOUNCED IT WOULD NOT CONTINUE PAYMENTS TO WESTINGHOUSE FOR A REACTOR THAT HAS BEEN PLAGUED WITH DIFFICULTIES. ON MAY 12, 1982 THE U.S. JOURNAL OF COMMERCE REPORTED THAT THE BRAZILIAN MINISTER OF MINES AND ENERGY HAD SAID, "WE BOUGHT THE SYSTEM TO FUNCTION, AND IT HASN'T FUNCTIONED YET". HE ANNOUNCED THAT BRAZIL OWES \$1.5 BILLION ON THE REACTOR FOR WHICH EXIM GRANTED A LOAN/GUARANTEE PACKAGE OF \$222 MILLION. EXIMBANK DOES NOT YET KNOW IF THIS REFUSAL TO PAY FOR FAULTY EQUIPMENT WILL AFFECT THEIR OUTSTANDING LOAN.

THE CONSEQUENCES FOR WESTINGHOUSE AND EXIM OF BRAZIL'S REFUSAL TO PAY COULD BE ENORMOUS. WESTINGHOUSE REACTORS OF THE BRAZILIAN DESIGN, IN SPAIN, YUGOSLAVIA AND SWEDEN, HAVE THE SAME PROBLEMS AS THE BRAZILIAN REACTOR. THE PHILIPPINE REACTOR IS REFERENCED ON THE BRAZILIAN REACTOR. ALL THESE REACTORS ARE FINANCED BY EXIMBANK.

AND NONE OF THEM OR ANY OTHER REACTOR FINANCED BY EXIM HAS EVER BEEN REVIEWED FOR DESIGN DEFICIENCIES BY THE BANK.

3. PHILIPPINES

IN MARCH 1981, CONGRESS WAS ASKED TO OKAY A \$122 MILLION GUARANTEE FOR ADDITIONAL SAFETY EQUIPMENT FOR THE PHILIPPINE NUCLEAR REACTOR. INCREDIBLY THE COST OF THIS SMALL 620 MW REACTOR HAD SOARED TO \$1.9 BILLION, MAKING IT ONE OF THE MOST EXPENSIVE REACTORS IN THE WORLD. YET THIS REACTOR STILL COULD NOT BE BUILT IN THE U.S. AS IT DOES NOT INCLUDE ALL POST-1973 U.S. REQUIREMENTS FOR REACTOR SAFETY.

WESTINGHOUSE AND THE PHILIPPINES PUT THE EXPORT-IMPORT BANK IN A FINANCIAL BIND. IN A LETTER TO CONGRESSMAN NEAL, CHAIRMAN OF THE INTERNATIONAL TRADE SUBCOMMITTEE OF THE HOUSE BANKING COMMITTEE, EXIM STATED, IT "IS RESPONDING TO STRONG REPRESENTATION BY THE GOVERNMENT OF THE PHILIPPINES THAT IF EXIM REFUSES TO PARTICIPATE TO THE EXTENT IT NOW PROPOSES IN GUARANTEEING THE FINANCING OF A PORTION OF THE ADDITIONAL COSTS, THE BALANCE OF ADDITIONAL FINANCING REQUIRED WOULD NOT BECOME AVAILABLE AND THE PROJECT MIGHT NOT BE COMPLETED". TO REFUSE THE GUARANTEE WOULD HAVE THREATENED THE ENTIRE PROJECT AND THEREFORE EXIM'S CHANCES OF BEING REPAID.

4. SOUTH KOREA

SOUTH KOREA HAS A TREMENDOUSLY AMBITIOUS NUCLEAR PROGRAM, BUT IN A STUDY CONDUCTED BY SALOMON LEVY, A CONSULTANT FOR THE WORLD BANK AND THE UN DEVELOPMENT PROGRAM, IT WAS CONCLUDED THAT THE RUSH TO BUILD SO MANY REACTORS IN SOUTH KOREA IS STRAINING THE COUNTRY'S ABILITY TO ADEQUATELY TRAIN TECHNICIANS AND IS HINDERING THE DEVELOPMENT OF AN EFFECTIVE REGULATORY AND QUALITY ASSURANCE PROGRAM.

SERIOUS NUCLEAR ACCIDENTS ARE THEREFORE SIGNIFICANTLY MORE LIKELY TO OCCUR.

THE ONE SOUTH KOREAN REACTOR HAS HAD DIFFICULTIES FROM THE START CAUSED BY DISORDERS IN ITS SECONDARY COOLING SYSTEM, PROBABLY DUE TO HASTY AND SHODDY CONSTRUCTION OR OPERATION PRACTICES. IN 1978 IT OPERATED AT 45% CAPACITY, IN 1979 AT 60%, IN 1980 AT 66%, AND IN 1981 AT 56%.

EXIMBANK HAS COMMITTED \$2.441 BILLION TO SOUTH KOREA'S NUCLEAR PROGRAM. AN ACCIDENT WOULD PROBABLY NOT BE THE FAULT OF THE SUPPLIER BUT WOULD CERTAINLY AFFECT THE ABILITY OF SOUTH KOREA TO REPAY ITS LOANS.

B. THE AIRCRAFT INDUSTRY

THE AIRCRAFT INDUSTRY, LIKE THE NUCLEAR INDUSTRY, HAS BECOME INCREASINGLY INTERNATIONAL. AIRBUS INDUSTRIE, FOR EXAMPLE, USES GENERAL ELECTRIC ENGINES, WHEREAS SEVERAL U.S. MANUFACTURERD AIRPLANES USE BRITISH ROLLS ROYCE ENGINES. AIRBUS SALES PROVIDE JOBS TO U.S. GENERAL ELECTRIC WORKERS. BOEING SALES INCREASE EMPLOYMENT IN BRITAIN.

THE INDUSTRY HAS REALIZED THE BENEFITS OF EXPLOITING NATIONAL BOUNDARIES, AND ALSO SEES A POLITICAL NEED TO AVOID A NATIONAL CHARACTER TO THEIR PRODUCT, PARTICULARLY WHEN COMPETING IN THE THIRD WORLD. BOEING IS REPORTED TO BE NEGOTIATING WITH THE JAPANESE AIRCRAFT INDUSTRY FOR A JOINT VENTURE, WHICH WILL UNDOUBTEDLY MEAN THE EXPORTING OF ENGINEERING, CONSTRUCTION AND DESIGN JOBS TO THE JAPANESE.

FOREIGN AIRLINES HAVE CLEVERLY PLAYED THE EUROPEAN AND AMERICAN LENDING INSTITUTIONS AGAINST EACH OTHER, LOOKING FOR THE BEST

FINANCING. OFTEN THE AIRCRAFT INDUSTRY AND PURCHASING COUNTRY INDICATE A SENSE OF URGENCY IN AN ATTEMPT TO FORCE THE EXIMBANK TO MAKE A HASTY DECISION FOR FEAR OF BEING RESPONSIBLE FOR LOSING A LARGE CONTRACT.

BOEING HAS LOST OVERSEAS SALES FOR A WIDE RANGE OF REASONS, MOSTLY POLITICAL. YET BOEING BLAMES UNITED STATES FINANCING POLICY AND INSISTS THAT ONLY WITH MORE FINANCING WILL THESE MARKETS BE AVAILABLE TO BOEING AGAIN. THE COST OF WINNING THESE MARKETS, WHICH WOULD CREATE A NEAR-MONOPOLY FOR BOEING, WILL BE HIGH. ALL AIRLINES, BOTH DOMESTIC AND FOREIGN, DESERVE A CHOICE OF AIRPLANES AND SUPPLIERS. TO RESTORE BOEING TO A NEAR-MONOPOLY WOULD FURTHER HURT THE U.S. DOMESTIC AIRLINE BUSINESS AND WOULD STRAIN FURTHER OUR RELATIONS WITH OUR EUROPEAN ALLIES AND THE THIRD WORLD.

IN THE UNITED STATES SEVERAL AIRLINES ARE ON THE VERGE OF COLLAPSE; THEY NEED TO REPLACE OLDER AIRPLANES WITH NEW FUEL EFFICIENT PLANES THAT ARE THE PROPER SIZE FOR THE MOST FREQUENTLY TRAVELED ROUTES. BUT FEW OF THE DOMESTIC AIRLINES HAVE BEEN EARNING ENOUGH MONEY TO PURCHASE NEW AIRCRAFT. MANY OF THOSE ORDERED HAVE BEEN CANCELLED. AMERICAN AIRLINES, FOR EXAMPLE, HAS CANCELLED AN ORDER FOR 15 BOEING AIRCRAFT; UNITED IS POSTPONING THE DELIVERY OF 20 AIRPLANES AND MIGHT CANCEL ITS ORDER FOR 19 MORE. THE AIRLINES DO NOT HAVE THE CAPITAL TO FINANCE THESE VITAL PURCHASES, AND ARE FINDING IT INCREASINGLY DIFFICULT TO BORROW IT.

MEANWHILE THE U.S. AIRLINES ARE LOSING OVERSEAS ROUTES TO FOREIGN AIRLINES ABLE TO OBTAIN NEW AIRCRAFT AT BELOW-MARKET RATES FROM THE EXIM BANK AND THE EUROPEAN COUNTERPARTS.

III. THE RISKY PORTFOLIO OF EXIM BANK

IN THE PAST YEAR THE WORLD HAS WITNESSED AN INCREASING NUMBER OF COUNTRIES BUCKLE UNDER THE WEIGHT OF HEAVY EXTERNAL DEBT. AS A PUBLIC LENDING INSTITUTION, EXIM IS NORMALLY LAST IN LINE FOR REPAYMENT WHEN A COUNTRY MUST RESCHEDULE ITS FOREIGN DEBT. PREVIOUSLY THIS MIGHT NOT HAVE MATTERED. BUT IN THE LAST FEW MONTHS THE NUMBER OF COUNTRIES THAT ARE UNABLE TO MAKE PAYMENTS ON THEIR FOREIGN DEBT HAS INCREASED DRAMATICALLY. MEXICO AND ARGENTINA, TWO COUNTRIES RECENTLY EXPERIENCING DIFFICULTY, OWE EXIM A TOTAL OF \$3.4 BILLION -- MORE THAN THE BANK'S TOTAL RESERVE FOR CONTINGENCIES AND DEFAULTS.

EXIMBANK REPORTS ROLL-OVER DEBTS IN PERU, MEXICO, ZAIRE AND TURKEY, AND REPORTS UGANDA, LIBERIA, IRAN, BRAZIL, JAMAICA, POLAND AND RUMANIA ARE DELINQUENT. AND THE SITUATION IS GETTING WORSE.

FROST AND SULLIVAN REPORTED IN 1981 THAT 45 COUNTRIES THAT OWE EXIM HAVE A 25% OR GREATER CHANCE OF CAUSING A MAJOR BUSINESS LOSS IN THE NEXT FIVE YEARS. THESE COUNTRIES OWE \$22.8 BILLION -- 68% OF EXIM'S TOTAL EXPOSURE.

JUST WEEKS BEFORE MEXICO FELL INTO ITS FINANCIAL CRISIS EXIMBANK OFFERED MEXICO A PRELIMINARY COMMITMENT TO FINANCE THE EXPORT OF U.S. NUCLEAR REACTORS. EXIM HAD PROMISED U.S. VENDORS THAT IN THE COMPETITION FOR THE MEXICAN REACTOR SALE, EXIMBANK WOULD OFFER FINANCING TERMS EQUAL OR BETTER THAN THOSE OFFERED BY ANY OTHER SUPPLIER NATION. MEXICO ALREADY HAD AN EXTERNAL DEBT OF OVER \$80 BILLION. IT HAD BEEN DELINQUENT ON LAON PAYMENTS TO EXIMBANK CONSISTENTLY SINCE 1975.

YET EXIM WAS WILLING TO COMMIT ANOTHER ENORMOUS FINANCING PACKAGE TO MEXICO FOR THE NUCLEAR POWER INDUSTRY. THERE WAS MUCH

EVIDENCE THAT MEXICO WAS IN SERIOUS FINANCIAL TROUBLE; AND YET EXIMBANK AND THE NUCLEAR INDUSTRY MOVED AHEAD. IRONICALLY, IT WAS MEXICO THAT PULLED BACK FROM ITS NUCLEAR PROGRAM FIRST IN ORDER TO "REEVALUATE THE PROGRAM",

EXIMBANK'S EXPOSURE IN SOUTH KOREA RANKS LARGEST IN ITS PORTFOLIO -- \$3.5 BILLION, AT THE CLOSE OF FY 1981, OR 9.2% OF THE BANK'S TOTAL PORTFOLIO. LOSING THAT INVESTMENT, FOR WHATEVER WHATEVER REASON, COULD BRANKRUPT EXIM.

THREE DAYS AFTER SOUTH KOREAN PRESIDENT PARK CHUNG HEE WAS SHOT -- BY THE HEAD OF HIS OWN INTELLIGENCE AGENCY -- THE U.S. EXPORT-IMPORT BANK ANNOUNCED THE LARGEST LOAN IN ITS HISTORY. THE \$936 MILLION LOAN WAS TO KOREA ELECTRIC COMPANY FOR TWO NUCLEAR PLANTS.

EXIMBANK OFFICIALS SAID THE SITUATION WAS STABLE IN KOREA -- "IT ISN'T LIKE CERTAIN OTHER COUNTRIES THAT HAVE CHANGED THEIR LEADERSHIP." THAT WAS A REFERENCE TO THE RECENT FALL OF THE SHAH OF IRAN, STILL ON THE MINDS OF BANKERS AND REPORTERS.

MONTHS LATER, AFTER THE KWANGJU REBELLION AND WIDESPREAD UNREST, JOHN L. MOORE OF EXIMBANK RUSHED TO SOUTH KOREA TO ANNOUNCE 14 MORE PROJECTS WORTH \$631 MILLION. THAT MADE SOUTH KOREA THE LARGEST CUSTOMER OF THE BANK. THE WASHINGTON POST REPORTED ON JUNE 4, 1980 THAT "MOORE WAS PERMITTED TO GO, THE SOURCE SAID, AFTER HIS STRONG PLEAS THAT HE HAD TO PROTECT \$3.1 BILLION IN EXPORT-IMPORT BANK INVESTMENT IN KOREA, THE LARGEST OF ANY COUNTRY."

WHILE EXIM WAS RUSHING BILLIONS TO KOREA, OTHER MORE OBJECTIVE OBSERVERS WERE PULLING BACK. THE CHEMICAL BANK CALLED THE FIRST HALF OF 1980 "THE WORST PERFORMANCE IN TWO DECADES" OF KOREAN DEVELOPMENT". THE WORLD BANK NOTED THAT, "AS KOREA'S CURRENT ACCOUNT DEFICIT HAS WIDENED THIS YEAR AND POLITICAL TURBULENCE HAS

MOUNTED, COMMERCIAL BANKS HAVE BEGUN TO HARDEN TERMS ON LOANS TO SOUTH KOREA. ("KOREA: ECONOMIC BRIEF", WORLD BANK) EXIM MUST HAVE FELT FORCED TO GRANT REQUESTS FOR ADDITIONAL LOANS.

THE GOVERNMENT ACCOUNTING OFFICE SOUNDED A WARNING IN 1975, "EXIMBANK IS IN FINANCIAL DIFFICULTY. ITS RISK OF INCURRING POSSIBLE LOSSES HAS INCREASED SIGNIFICANTLY AND WILL CONTINUE TO INCREASE."

ON JUNE 15, 1982, THE COMPTROLLER GENERAL OF THE UNITED STATES AGAIN WARNED THE EXIMBANK THAT THE RISK OF LOSSES HAD INCREASED.

ALTHOUGH THE RESERVE INCREASED IN FISCAL YEAR 1981, THE RISK OF INCURRING POSSIBLE FUTURE LOSSES INCREASED TO A LARGER EXTENT. THIS INCREASED RISK IS DUE PRIMARILY TO LOAN PURCHASES, OUTSTANDING PURCHASE AGREEMENTS, AND PRINCIPAL AND INTEREST DELINQUENCIES.... IN FISCAL YEAR 1981 THE BANK PURCHASED LOANS TOTALING \$52.2 MILLION. CUMULATIVE LOAN PURCHASES SINCE 1977 HAVE BEEN \$275.6 MILLION, WHILE CUMULATIVE REPAYMENTS HAVE BEEN \$30.5 MILLION. UNDER EXISTING AGREEMENTS, THE BANK MAY BE CALLED ON TO PURCHASE ADDITIONAL LOANS TOTALLING AS MUCH AS \$270.3 MILLION.

RECENTLY INSTITUTIONAL INVESTOR QUOTED AN INTERNATIONAL BANKER AS SAYING "CONSERVATISM WILL BE THE NAME OF THE GAME (IN THE 1980s) ...WITH ALL THE RESCHEDULING IN THE WORLD TODAY, THERE ISN'T MUCH APPETITE FOR INTERNATIONAL ASSETS." THE EXPORT-IMPORT BANK CAN NOT BE EXPECTED TO SEE INTO THE FUTURE. BUT EXIMBANK SHOULD NOT BE ALLOWED TO GAMBLE THE WEALTH OF THE UNITED STATES ON THE POLITICAL AND FINANCIAL FORTUNES OF FOREIGN COUNTRIES. NOR SHOULD U.S. ALLIANCES BE CREATED OR MAINTAINED OUT OF FEAR OF DEFAULT. THIS IS HAVING SERIOUS EFFECTS ON OUR FOREIGN POLICY AND THE ECONOMIES OF THE WORLD. CAN WE AFFORD THE COST?

IV. THE ACCOUNTING PROCEDURES OF THE BANK

EXIMBANK IS NOT REQUIRED TO USE GENERALLY ACCEPTED ACCOUNTING PROCEDURES AND IT DOESN'T. THIS MEANS THAT THE "PROFIT" SHOWN IN ITS ANNUAL REPORT IS EXAGGERATED.

THE BANK'S INCOME, WHICH IS PUT INTO THE RESERVE FOR CONTINGENCIES AND DEFAULTS, IS THE DIFFERENCE BETWEEN THE BANK'S EXPECTED INCOME (FROM INTEREST AND FEES) AND THE BANK'S EXPENSES (LOAN OUTLAYS, ADMINISTRATIVE EXPENSES, ITS OWN INTEREST FEES AND THE FEW LOANS IT CONSIDERS "UNCOLLECTABLE"). THEREFORE, "INCOME" ESSENTIALLY RECORDS PROFIT IN THE BEST POSSIBLE CASE.

EXIM IS NOT REQUIRED TO WRITE OFF BAD LOANS OR LATE INTEREST PAYMENTS IN A TIMELY FASHION. AS THE GAO REPORTS EXIM STILL CARRIES PRE-REVOLUTIONARY LOANS TO CUBA AND CHINA AS COLLECTABLE ASSETS.¹

ALSO, UNLIKE PRIVATE BANKS, EXIMBANK INCLUDES IN ITS NET INCOME INTEREST ON DELINQUENT LOANS. IN 1978 THIS ACCOUNTED FOR 7.9% OF THE BANK'S REPORTED INCOME AND DOUBLE IN THE NEXT YEAR. AND IN 1980 UNCOLLECTED INTEREST ON DELINQUENT LOANS ACCOUNTED FOR AN INCREDIBLE 84.5% OF THE BANK'S REPORTED NET INCOME.

BECAUSE OF THESE QUESTIONABLE ACCOUNTING METHODS, THE BANK'S 1980 ANNUAL REPORT SHOWS A \$110 MILLION PROFIT. IN FACT, EXIM WAS \$178 MILLION BEHIND WHAT THEY REPORTED. THE 1981 ANNUAL REPORT SHOWS A \$12 MILLION PROFIT. BUT UNCOLLECTED INTEREST FEES AND LOAN PURCHASES ACTUALLY BROUGHT THE YEAR'S LOSS TO \$31 MILLION.

IN 1980 EXIM REPORTED A RESERVE OF \$2.187 BILLION. GAO REPORTED THAT \$468 MILLION, OR 21% OF EXIM'S RESERVE, WAS ACTUALLY UNCOLLECTED.

V. CONCLUSION

THE MONEY IN THE U.S. TREASURY BELONGS TO THE AMERICAN PUBLIC. CONGRESS HAS AN OBLIGATION TO SEE THAT THIS MONEY IS WELL INVESTED. WE URGE YOU TO TAKE A CAREFUL AND REALISTIC LOOK AT THE SAFETY AND USE OF THIS INVESTMENT OF PUBLIC FUNDS BY THE EXPORT-IMPORT BANK.

¹GENERAL ACCOUNTING OFFICE STUDY OF EXIMBANK (U.S. CONGRESS 1981b, P. 14. "NO LOANS WERE WRITTEN OFF IN FISCAL YEARS 1979 AND 1980, AND ONLY \$8 MILLION IN LOANS HAS BEEN CHARGED OFF AGAINST INCOME SINCE 1934. FOR EXAMPLE, NO DETERMINATIONS OF UNCOLLECTIBILITY HAVE BEEN MADE FOR DELINQUENT LOANS OF \$26.4 MILLION MADE IN 1946 TO THE THEN RECOGNIZED GOVERNMENT OF CHINA AND \$36.3 MILLION MADE TO CUBA BEFORE 1961 WHEN A PRIOR GOVERNMENT EXISTED."

THE EXPORT - IMPORT BANK SUBSIDY: NUCLEAR AND AIRCRAFT INDUSTRIES
(millions of dollars in direct credit)

	1981	1980	1979	1978	1977
Westinghouse (nuclear)	----	542	456	753	88
General Electric (nuclear)	----	----	----	----	----
Boeing	2,362	1,038	1,091	178	68
McDonnell Douglas	86	417	279	11	46
Lockheed	107	----	52	----	24
Combined Loans to Lockheed, Boeing & McDonnell Douglas	----	380	----	----	----
Total Nuclear	----	546	456	753	88
Total Aircraft	2,555	1,835	1,424	189	137
Total Bank Credit	5,046	4,045	3,725	2,872	700
Percent Nuclear	----	13.5	12.2	26.2	12.6
Percent Aircraft	50.6	45.4	38.2	6.6	19.6
Percent Nuclear and Aircraft	50.6	58.9	50.5	32.8	32.1

Center for Development Policy
9/10/82

RISK ASSESSMENT OF THE EXPORT - IMPORT BANK'S EXPOSURE
AS OF FISCAL YEAR 1981 - LATIN AMERICA

COUNTRY	EXIM EXPOSURE ¹	% TOTAL EXIM EXPOSURE	INSTITUTIONAL ² INVESTOR RATING	EUROMONEY RATING ³
Argentina	666,884,718	1.7 %	50.5	38
Bahamas	13,753,855	0.035%		51
Barbados	8,909,048	0.02 %		23
Bolivia	46,739,468	0.1 %	16.5	63
Brazil	1,794,122,315	4.7 %	50.3	62
Chile	126,438,430	0.3 %	52.1	34
Colombia	235,194,024	0.6 %	55.3	26
Costa Rica	85,028,904	0.2 %	19.9	
Cuba	36,266,581	0.1 %	20.5	45
Dominican Republic	123,940,598	0.3 %	23.3	
Ecuador	213,609,565	0.6 %	46.9	39
El Salvador	16,046,432	0.04 %	7.2	
Guatemala	77,720,531	0.2 %	18.2	
Honduras	74,963,330	0.2 %	17.6	57
Jamaica	75,714,989	0.2 %	16.9	64
Mexico	2,745,238,555	7.1 %	62.8	27
Nicaragua	19,344,845	0.05 %	7.4	
Panama	106,497,518	0.3 %	40.5	56
Paraguay	17,971,932	0.05 %	44.0	
Peru	231,546,052	0.6 %	41.0	47
Trinidad & Tobago	284,845,067	0.7 %	53.2	49
Uruguay	41,484,073	0.1 %	40.1	33
Venezuela	818,047,625	2.1 %	63.3	61
Total	38,406,205,864 *			

¹ as of 9/30/81

² 1982 credit ratings

³ ranking for 1981

* Total EXIM Bank exposure as of 9/30/81

Sources: Institutional Investor, March 1982, "The 1982 country credit ratings", pp. 189-192.

Euromoney, February 1982, "The Country Risk League Table", pp. 46-51.

Fiscal 1981 Annual Report, Export-Import Bank of the U.S., pp. 27-30.

RISK ASSESSMENT OF THE EXPORT - IMPORT BANK'S EXPOSURE
AS OF FISCAL YEAR 1981 - ASIA AND OCEANIA

COUNTRY	EXIM EXPOSURE ¹	% TOTAL EXIM EXPOSURE	INSTITUTIONAL ² INVESTOR RATING	EUROMONEY RATING ³
Australia	645,746,414	1.7 %	90.2	2
Bahrein	24,838,203	0.1 %	59.4	
China				
Pre-revolution	26,386,019	0.1 %		
Post-revolution	57,144,009	0.1 %	64.3	36
Hong Kong	120,422,670	0.3 %	75.2	
India	199,726,485	0.5 %	46.6	19
Indonesia	541,852,338	1.4 %	56.3	13
Iran	307,705,118	0.8 %	11.3	
Iraq	5,660,836	0.01 %	42.2	
Israel	1,175,559,280	3.1 %	35.7	
Japan	894,843,597	2.3 %	95.8	
Jordan	350,873,441	0.9 %	38.6	
South Korea	3,521,977,519	9.2 %	56.9	29
Kuwait	47,545,882	0.1 %	70.6	
Lebanon	34,465,537	0.1 %	15.4	
Malaysia	101,964,376	0.3 %	72.8	4
New Zealand	107,288,386	0.3 %	75.5	8
Oman	8,495,686	0.02 %	46.9	
Pakistan	73,781,366	0.2 %	21.0	65
Papua New Guinea	5,424,430	0.01 %	43.7	16
Philippines	1,094,730,109	2.8 %	40.2	37
Qatar	3,417,760	0.01 %	56.2	
Saudi Arabia	330,255,860	0.8 %	72.9	
Singapore	261,892,547	0.7 %	78.5	
Sri Lanka	48,322,507	0.1 %		32
Taiwan	2,203,781,094	5.7 %	68.0	20
Thailand	284,421,516	0.7 %	50.6	25
United Arab Emirates	28,937,167	0.1 %	60.8	
Total	38,406,205,864 *			

¹ as of 9/30/81 ² 1982 credit ratings ³ ranking for 1981

* Total EXIM Bank exposure as of 9/30/81

Sources: Institutional Investor, March 1982, "The 1982 country credit ratings", pp. 189-192.
Euromoney, February 1982, "The Country Risk League Tables", pp. 46-51.
Fiscal 1981 Annual Report, Export-Import Bank of the U.S., pp. 27-30.

RISK ASSESSMENT OF THE EXPORT-IMPORT BANK'S EXPOSURE
AS OF FISCAL YEAR 1981 - AFRICA

COUNTRY	EXIM EXPOSURE ¹	% TOTAL EXIM EXPOSURE	INSTITUTIONAL ² INVESTOR RATING	EUROMONEY RATING ³
Algeria	1,237,045,832	3.2 %	55.7	28
Angola	112,357,457	0.3 %	16.8	59
Cameroon	90,517,767	0.2 %	33.0	
Congo	917,908	--	14.9	55
Egypt	147,736,726	0.4 %	34.8	
Ethiopia	28,366,798	0.1 %	9.4	
Gabon	23,176,543	0.06 %	35.0	
Ivory Coast	278,772,470	0.7 %	39.9	52
Jordan	350,873,441	0.9 %	38.6	
Kenya	19,619,863	0.05 %	35.1	41
Liberia	18,283,142	0.05 %	13.4	
Libya	508,670	--	42.8	30
Malawi	1,323,712	--	20.1	
Mauritius	2,125,489	0.01 %	19.4	
Morocco	102,414,114	0.3 %	33.4	53
Niger	6,167,896	0.02 %		69
Nigeria	431,211,526	1.1 %	52.3	43
Senegal	7,723,902	0.02 %	20.1	60
Seychelles	47,914	0.2 %	83.9	14
Sierra Leone	24,045,620	0.06 %	11.7	
South Africa	77,973,531	0.2 %	60.5	46
Sudan	22,613,251	0.06 %	9.5	
Tanzania	15,544,925	0.04 %	12.0	
Tunisia	110,192,862	0.3 %	46.0	17
Uganda	1,818,566	--	5.4	
Zaire	624,396,664	1.6 %	6.1	
Zambia	87,822,239	0.2 %	12.8	66
Zimbabwe	37,866,935	0.1 %	26.3	54
Total	38,406,205,864 *			

¹ as of 9/30/81

² 1982 credit ratings

³ ranking for 1981

* Total EXIM Bank exposure as of 9/30/81

Sources: Institutional Investor, March 1982, "The 1982 country credit ratings", pp. 189-192.

Euromoney, February 1982, "The Country Risk League Table", pp. 46-51.

Fiscal 1981 Annual Report, Export-Import Bank of the U.S., pp. 27-30.

RISK ASSESSMENT OF THE EXPORT-IMPORT BANK'S EXPOSURE
AS OF FISCAL YEAR 1981 - EUROPE AND CANADA

COUNTRY	EXIM EXPOSURE ¹	% TOTAL EXIM EXPOSURE	INSTITUTIONAL ² INVESTOR RATING	EUROMONEY RATING ³
Austria	79,736,847	0.2 %	83.9	5
Belgium	210,217,907	0.5 %	77.3	22
Canada	1,953,115,886	5.1 %	92.5	10
Cyprus	10,948,946	0.03 %	34.5	35
Denmark	117,604,843	0.3 %	71.7	15
West Germany	117,524,273	0.3 %	93.9	
Finland	106,054,044	0.3 %	75.1	9
France	414,759,276	1.1 %	84.6	3
Greece	128,108,074	0.3 %	58.9	7
Hungary	9,894,581	0.03 %	52.5	40
Iceland	10,655,335	0.03 %	55.5	18
Ireland	107,840,370	0.3 %	69.2	11
Italy	707,842,802	1.8 %	72.4	31
Norway	269,200,069	0.7 %	87.8	12
Netherlands	134,478,688	0.4 %	87.2	
Poland	257,325,578	0.7 %	13.0	
Portugal	240,437,728	0.6 %	55.9	21
Rumania	328,752,545	0.9 %	30.3	42
Spain	1,820,645,655	4.7 %	66.3	24
Sweden	165,572,897	0.4 %	79.8	6
Switzerland	84,566,719	0.2 %	95.9	
Turkey	479,116,990	1.2 %	17.4	68
USSR	418,311,462	1.1 %	65.5	44
United Kingdom	1,239,710,753	3.2 %	88.3	1
Yugoslavia	949,502,099	2.5 %	40.4	58
Total	38,406,205,864 *			

¹ as of 9/30/81

² 1982 credit ratings

³ ranking for 1981

* Total EXIM Bank exposure as of 9/30/81

Sources: Institutional Investor, March 1982, "The 1982 country credit ratings", pp. 189-192.

Euromoney, February 1982, "The Country Risk League Table", pp. 46-51.

Fiscal 1981 Annual Report, Export-Import Bank of the U.S., pp. 27-30.

EXPORT-IMPORT BANK OF THE UNITED STATES
 Authorizations for Nuclear Power Plants and Training Center
 Summary by Country
 From Inception thru March 31, 1982
 (\$ Thousands)

Exhibit A

Country	Equipment	Export Value		Number of Plants Financed	Eximbank Direct Loans			No. of Loans	Financial Guarantees			No. of Guar.
		Equipment	Fuel		Equipment	Fuel	Total		Equipment	Fuel	Total	
Net Authorizations:												
Argentina	\$ 263,162	\$ 18,853	\$ 18,853	-	\$ -	\$ 13,466	\$ 13,466	1	\$ -	\$ -	\$ -	1
Brazil	-	27,572	290,734	1	185,153	17,527	202,680	2	16,996	3,644	20,640	1
Canada	11,220	5,030	16,250	1	11,220	5,030	16,250	1	-	-	-	-
France	27,200	30,948	58,148	1	22,860	30,448	53,308	5	-	-	-	-
Greece	8,295	-	8,295	-	5,776	-	5,776	2	1,275	-	1,275	1
Israel	650	-	650	-	485	-	485	2	135	-	135	1
Italy	75,759	26,796	102,555	2	70,851	24,849	95,700	2	-	-	-	-
Japan	634,915	327,846	962,761	11	362,096	135,055	497,151	20	124,988	74,384	199,372	7
Korea	2,216,282	447,756	2,664,038	6	1,621,201	329,984	1,951,185	7	436,273	54,042	490,315	6
Mexico	202,663	37,000	239,663	2	111,528	24,930	136,458	5	53,145	8,370	61,515	3
Philippines	691,400	47,600	739,000	1	255,800	21,400	277,200	1	450,010	21,400	471,410	3
Romania	146,170	515	146,685	-	122,288	219	122,507	2	1,545	219	1,764	1
Spain	1,524,174	358,602	1,882,776	15	831,278	160,292	991,570	18	379,037	75,482	454,519	12
Sweden	44,700	37,935	82,635	2	20,115	20,070	40,185	4	-	6,570	6,570	1
Taiwan	993,142	285,126	1,278,268	6	438,960	156,269	595,229	6	275,925	32,400	308,325	5
Yugoslavia	198,577	22,000	220,577	1	248,906	19,800	268,706	2	29,337	-	29,337	1
Var. European Countries	90,250	-	90,250	-	90,250	-	90,250	1	-	-	-	-
					\$4,398,767	\$959,339	\$5,358,106	81	\$1,768,666	\$276,511	\$2,045,177	42
					\$7,128,559	\$1,673,579	\$8,802,138	49				

Senator HEINZ. Thank you.

One thing I'd just like to be clear on. You know, one way of looking at the costs to the taxpayers of the Export-Import Bank is on a cash basis, how much in, how much out.

EXIMBANK RETURNS MONEY TO THE TREASURY

Now, my understanding is that since 1945 up until this last year, on a cash basis, the Export-Import Bank has been returning money to the Treasury. The measure of that cash basis that I am using is net outlays.

Is that not an accurate statement, an accurate measure of the cash cost to the taxpayer?

Ms. FOOTE. The figures that I was using have to do with the opportunity cost.

Senator HEINZ. I understand what you're using. I'm not quarreling with concept of opportunity cost, with the concept of—or the differences between the cost of money to the Federal Financing Bank as opposed to the homeowner. I'm just asking a factual question, to make sure you and I agree on the same figures. I'm not trying to be tricky or anything.

Ms. FOOTE. No. I agree with what you're saying.

Senator HEINZ. That is correct. OK.

You make the point, and it certainly is true, that the Bank borrows through the Federal Financing Bank in a way, for example, the homeowner can't borrow. Indeed, the entire Federal Government borrows in ways that the homeowner can't borrow.

What does that imply for the Federal Government? I mean, should we just pay a higher interest rate than we're now paying so that we don't compete on some kind of an unfavorable basis with all the other people in the economy?

Ms. FOOTE. No. I think that it may well be that there should be financing available to exporters. I think, though, that that must be evaluated in its real terms. Are the benefits of offering exporters low-cost financing real? And are they measurable?

And the distinction I was making was between the low-cost lending to the larger corporations who are able to move overseas and, indeed, are moving overseas and the cost of that and the distortion of economic flows in this country to their benefit from the benefit of the public at large.

GOVERNMENT BORROWING ADVANTAGE

Senator HEINZ. Yet, as I think you are no doubt aware, in this country we also borrow at low cost to finance the defense budget, welfare programs, virtually everything in the Federal Government.

Why should we, in principle now, single out one particular activity and say, no, we should not—if we're going to support this, we should not support it on the same basis as we support Government spending for welfare, Government spending for the national defense, Government spending for food stamps, Government spending for student loans, Government spending for what have you? Why do we make that distinction here?

Ms. FOOTE. I think that the principle is that there are times when we should, in fact, borrow from the Treasury for welfare, for defense, for student loans. The questions I'm raising—

Senator HEINZ. No, I'm not saying whether or not we should borrow for those purposes. The question is if we're going to borrow for those purposes and if we're going to borrow for the activities of the Export-Import Bank, your point being that you don't think there should be any Government borrowing advantage—unless I misunderstand your point. It's always an advantage for the Government to be the borrower. The Government, being the biggest customer, gets the best rate, you might say—but also has other effects.

But why would one pick just that particular area—you know, export financing—as one not to get the same kind of advantageous borrowing rate as welfare, defense, what have you? Why that, why that area?

Ms. FOOTE. That's not, I don't think, at all what I was implying.

If the benefits to the U.S. economy are substantial enough to merit the borrowing of Eximbank at low cost, then I think it is fine.

But I question whether low-interest-rate borrowing from the Federal Government for the nuclear and the aircraft industry in fact, is benefiting the economy or the U.S. public in the way they should if they are going to have access to cheap Government financing.

Senator HEINZ. Well, you have raised a number of very controversial and interesting issues which I'm sure the members of the committee will be very interested in.

I thank you for your appearance and your testimony.

Ms. FOOTE. Thank you.

Senator HEINZ. Gentlemen, I think I have had a chance, as we have gone through each of your statements generally, to ask you any points of clarification.

And, in general, gentlemen and ma'am—"Ms." I guess is the correct way of conveying that—you have all been very, extraordinarily so, specific in the information and the recommendations with which you've come forward. You have been very, very helpful. And I want to thank you on behalf of the committee.

There may be some specific questions other members of the committee will be putting to you. But I do thank you for all your cooperation. It's been most helpful to the committee.

Thank you all very much.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

[Additional material received for the record follows:]

97TH CONGRESS
2D SESSION

S. 2600

To amend the Export-Import Bank Act of 1945.

IN THE SENATE OF THE UNITED STATES

MAY 27 (legislative day, MAY 25), 1982

Mr. HEINZ (for himself, Mr. GARN, Mr. D'AMATO, Mr. MATHIAS, Mr. PRESSLER, Mr. JACKSON, Mr. SPECTER, Mr. CHAFEE, Mr. LUGAR, Mr. CRANSTON, and Mr. DIXON) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To amend the Export-Import Bank Act of 1945.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Export-Import Bank Re-
4 structuring Act of 1982".

5 SEC. 2. (a) The third sentence of section 3(c) of the
6 Export-Import Bank Act of 1945 (12 U.S.C. 635a(c)) is
7 amended by striking out "Terms of the directors shall be at
8 the pleasure of the President of the United States, and the"
9 and inserting in lieu thereof "The".

1 (b) Section 3(c) of such Act (12 U.S.C. 635a(c)) is
2 amended by adding at the end thereof the following: "The
3 terms of the directors first appointed after the date of enact-
4 ment of this sentence, including the President and the First
5 Vice President of the Bank, shall be four years, except
6 that—

7 "(1) of the directors first appointed pursuant to
8 this sentence, two directors (other than the President
9 and First Vice President of the Bank) shall be appoint-
10 ed for terms of two years, as designated by the Presi-
11 dent of the United States at the time of their appoint-
12 ment;

13 "(2) the terms of office of directors holding office
14 on the date of enactment of this sentence shall expire
15 on January 20, 1985; and

16 "(3) any person appointed to fill a vacancy shall
17 serve only for the remainder of the four-year or two-
18 year term to which he or she was appointed or until
19 January 20, 1985, as the case may be."

20 SEC. 3. (a) Section 2(a) of the Export-Import Bank Act
21 of 1945 (12 U.S.C. 635(a)) is amended by inserting "(1)"
22 immediately after "SEC. 2. (a)" and by adding at the end
23 thereof the following new paragraph:

24 "(2) The receipts and disbursements of the Bank in the
25 discharge of its functions (other than salaries and expenses)

1 shall not be included in the totals of the budget of the United
2 States Government and shall be exempt from any annual ex-
3 penditure and net lending (budget outlays) limitations im-
4 posed on the budget of the United States Government. In
5 accordance with the provisions of the Government Corpora-
6 tion Control Act, the President shall transmit annually to the
7 Congress a budget for program activities and for administra-
8 tive expenses of the Bank, which budget shall also include
9 the estimated annual net borrowing by the Bank from the
10 United States Treasury. The President shall report annually
11 to the Congress the amount of net lending of the Bank, in-
12 cluding any net lending created by the net borrowing from
13 the United States Treasury, which would be included in the
14 totals of the budget of the United States Government if the
15 Bank's activities were not excluded from those totals as a
16 result of this section."

17 (b) The amendment made by subsection (a) shall take
18 effect on October 1, 1982.

19 SEC. 4. Section 2 of the Export-Import Bank Act of
20 1945 (12 U.S.C. 635) is amended by adding at the end there-
21 of the following:

22 "(d)(1) There is hereby established a fund known as the
23 Competitive Agricultural Commodity and Manufactured
24 Product Export Subsidy Fund. The Fund shall be adminis-
25 tered by the Board of Directors. Amounts appropriated to the

1 Fund shall be used to make interest subsidy payments to pri-
2 vate lenders and to enter into arrangements with the Com-
3 modity Credit Corporation for purposes of enabling such pri-
4 vate lenders or the Commodity Credit Corporation to reduce
5 the rate of interest on extensions of credit made for purposes
6 of financing United States exports of agricultural commod-
7 ities, manufactured products, or other materials.

8 “(2) Not later than thirty days after the Board of Direc-
9 tors enters into an agreement to make interest subsidy pay-
10 ments, the Board of Directors shall prepare and transmit a
11 report to both Houses of the Congress regarding such agree-
12 ment. Each such report shall—

13 “(A) state the purpose for making such interest
14 subsidy payments;

15 “(B) state the type of United States export in-
16 volved;

17 “(C) state the terms and conditions of, and the
18 parties involved in, such interest subsidy payments and
19 the extension of credit involved;

20 “(D) state, with respect to the type of export in-
21 volved, the degree of export credit subsidy offered by
22 foreign governments in comparison with the degree of
23 export credit subsidy offered by the Fund;

24 “(E) explain the methods used to make the com-
25 parisons required under subparagraph (D); and

1 “(F) contain such other information as the Board
2 of Directors considers advisable.

3 “(3) For purposes of this subsection—

4 “(A) the term ‘arrangements’ means the arrange-
5 ment on guidelines for officially supported export cred-
6 its and other existing arrangements, standstills, min-
7 utes, and practices involving official export financing to
8 which the United States and other major exporting
9 countries have agreed;

10 “(B) the term ‘Fund’ means the Competitive Ag-
11 ricultural Commodity and Manufactured Product
12 Export Subsidy Fund established under paragraph (1);

13 “(C) the term ‘Secretary’ means the Secretary of
14 the Treasury; and

15 “(D) the term ‘United States exports’ means ex-
16 ports and exchanges of commodities between the
17 United States or any of its territories or insular posses-
18 sions and any foreign country or the agencies or na-
19 tionals thereof.

20 “(4) There are authorized to be appropriated not to
21 exceed \$2,000,000,000 to carry out the provisions of this
22 subsection. Such funds shall be available without fiscal year
23 limitation.”.

24 SEC. 5. Section 8 of the Export-Import Bank Act of
25 1945 (12 U.S.C. 635f) is amended by striking out “Septem-
1 ber 30, 1983” and inserting in lieu thereof “September 30,
2 1988”.

MACHINERY and ALLIED PRODUCTS INSTITUTE

1200 EIGHTEENTH STREET, N.W. WASHINGTON, D.C. 20036 202-331-8430

September 23, 1982

The Honorable John Heinz
Chairman, Subcommittee on International
Finance and Monetary Policy
Senate Committee on Banking, Housing
and Urban Affairs
5300 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Heinz:

We welcome this opportunity to submit our views on S. 2600 and other matters related to the Subcommittee's oversight hearings on the operations of the Export-Import Bank. We request that this statement be included in the printed record of the hearings.

As you probably know, the Machinery and Allied Products Institute is the national organization of capital goods and allied product manufacturers. Its membership includes a broad range of producers of machinery (electrical and nonelectrical), industrial equipment, oil field equipment, components, electronics, scientific and industrial instruments, controls, forgings, testing equipment, etc. Our membership is heavily involved in foreign markets through exports, direct investment, and licensing agreements. U.S. exports of machinery and transport equipment (excluding passenger vehicles) totaled \$92 billion during 1981.

We commend the Subcommittee for giving early consideration to fundamental matters related to next year's extension of the Export-Import Bank Act. However, the more immediate problem--to be dealt with by the Congress in the next few days--is to maintain an adequate level of funding for the Bank for Fiscal Year 1983 and our statement deals with that subject also. With the Bank's financing terms more nearly competitive than they have been for some time because of the revisions in the International Arrangement on Officially Supported Export Credits, it is critical that exporters be assured that the Bank has adequate funds to meet their needs if the loss of orders to foreign exporters is to be reduced. We hope that the Congress will authorize FY 1983 funding for Eximbank at least at the \$4.4 billion level authorized for FY 1982 and will continue the guarantee authority at the FY 1982 level.



MACHINERY & ALLIED PRODUCTS INSTITUTE AND ITS AFFILIATED ORGANIZATION, COUNCIL FOR TECHNOLOGICAL ADVANCEMENT, ARE ENGAGED IN RESEARCH IN THE ECONOMICS OF CAPITAL GOODS (THE FACILITIES OF PRODUCTION, DISTRIBUTION, TRANSPORTATION, COMMUNICATION AND COMMERCE) IN ADVANCING THE TECHNOLOGY AND FURTHERING THE ECONOMIC PROGRESS OF THE UNITED STATES



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Following a summary, our statement deals in more detail with (1) the need for adequate funding for Eximbank (including a critique of the Administration's rationale for reduced Bank funding), (2) the restructuring provisions contained in S. 2600, and (3) other issues which should be addressed when extension and amendment of the Bank's charter is undertaken next year.

Summary

The Need for Adequate Funding for Eximbank

The shortfall in U.S. export financing experienced over the past year and a half has adversely affected U.S. exports during this period and will adversely affect future sales as a result of loss of substantial follow-on orders for spare parts and later orders from the same party for expansions of capacity. Evidence offered by MAPI and other organizations, including several witnesses before the Subcommittee during the hearings on September 14 and 16, indicates that U.S. exporters have lost a very substantial amount of exports to foreign affiliates and unaffiliated foreign companies because of the Bank's uncompetitive lending policies. U.S. government policies with respect to funding of the Export-Import Bank provide another manifestation of the inability of the United States to maintain a consistent positive policy with respect to exports.

The Administration's rationale for reduced Bank funding is not convincing and its assumptions as to the effect on exports of reduced funding are flawed. Further, the Administration's posture with respect to the Bank's lending levels and lending policies are contrary to the long-held view that the Export-Import Bank Act requires that the Bank provide programs that are competitive with those offered by the export credit agencies of major competitor nations.

The revisions in the international Arrangement negotiated this summer have significantly improved the attractiveness of U.S. sourcing for exports. With the terms of U.S. export financing more nearly competitive with those offered abroad, it is critically important that exporters be assured that the Bank has adequate funds to provide financing. Sourcing decisions frequently have to be made many months in advance of a request for financing, and if there is doubt as to the availability of funds when they are needed (as well as the terms for that financing), U.S. firms will play safe and source from abroad or, if that option is not available, simply forego opportunities to bid.

Restructuring of the Bank

The Institute commends the Chairman for the provisions of S. 2600 which are intended to eliminate the Bank's "stop and go" policies of the past decade. We believe the establishment of fixed terms for directors could help in providing more continuity in Bank policies. While we believe the case for excluding Eximbank operations from the budget of the U.S. government is

persuasive (indeed, more persuasive than in the case of some other government activities which already are "off-budget"), we realize that any "slippage" in the present budget environment could lead to requests that other government activities be taken "off budget." We suggest that the General Accounting Office be directed to reevaluate the budget treatment of lending programs. While it is important that lending programs be included in data relating to the impact of federal activities on the economy, there should be recognition of the important qualitative differences between loans which are to be repaid with interest and expenditures for, say, salaries, which are not.

Even if the budget treatment of the Bank's activities cannot be changed, it should be possible to provide, in a budget calling for FY 1983 expenditures of over \$750 billion, for some \$2 billion in net outlays by the Bank for a program that enables U.S. firms to remain competitive internationally, strengthens our balance of trade, and provides jobs in competitive and highly skilled industries.

The Institute supports the establishment of a "war chest" so that Eximbank can match offers by competitor export credit agencies which are not covered by the international Arrangement guidelines, particularly "mixed credits" having a grant element of 20 percent or more. However, we believe the financing of agricultural exports should remain in the Department of Agriculture because that Department has (1) the special expertise required for export transactions involving agricultural products and (2) adequate funding available for extending credits to support exports of agricultural products.

Other Issues To Be Considered in Extension of the Bank's Charter

Beyond the matters already discussed, in its review of the Bank's charter next year the Subcommittee should consider amendments:

- Making clear that the Bank's mandate is to offer programs "which are competitive with the government-supported rates and terms and other conditions available for the financing of exports from the principal countries whose exporters compete with United States exporters." The Administration is placing greater emphasis on the implied obligation to be self-sustaining (i.e., to earn at least sufficient income to make appropriate additions to its reserves).
- Directing the Bank or another government agency (the Department of Commerce or the Office of the U.S. Trade Representative) to maintain an ongoing effort to measure exports lost because of the inadequacy of U.S. export financing. Government witnesses before the Subcommittee last week were able to offer only vague estimates of the volume of transactions lost to foreign

sources because of the inadequacy of U.S. export financing.

- Modifying the provisions of the Act which have prevented any Bank support to exports to South Africa. We do not believe the Congress intended that the restrictions adopted in 1978 would result in no Bank support for sales to South Africa. Other important considerations include the fact that no other major trading nation has adopted similar restrictions and the fact that the number of creditworthy countries worldwide is dwindling.
- Review the various legislative restrictions on Bank support for transactions involving communist countries, particularly those applicable to countries (e.g., Hungary and Romania) where the U.S. government has a policy favoring increased trade. Specifically, a review is needed of provisions which are intended to stimulate the flow of emigres at a time when there is a world "glut" of refugees and which require annual review by the Congress of the presidential determinations permitting the Bank to continue to support exports to individual communist countries.

The Need for Adequate Funding for Eximbank

General

The Bank's support is critical in those large transactions involving extended terms which make up an increasingly important part of U.S. export trade. For many of these transactions a sales opportunity may appear only once in a decade and, when the initial order is lost, the company also has lost the substantial follow-on orders of spare parts and later orders from the same party for expansion of capacity. Over a period of years these follow-on orders for parts tend to equal the dollar value of the initial sale and they normally do not involve Bank financing. In today's competitive world, market share lost for reasons of inadequate export financing or any other reason is not easily regained.

Inadequate export financing adds of course to the difficulties of U.S. exporters in a period when, due to the continuing strength of the dollar and widespread recession in world markets, export prospects are not good. In the current period competition for exports is especially intense because of excess capacity in all of the industrialized countries and increasing competition from some of the more advanced developing countries (e.g., South Korea and Brazil).

The Administration's Unconvincing
Rationale for Reduced Bank Funding

The Administration's rationale for reducing the level of funding for Eximbank's operations and its discussion of the impact of the reduction on U.S. exports were set forth in the "Export Credits and Guarantees" portion of Major Themes and Additional Budget Details: Fiscal Year 1983, published early in 1982 by the Office of Management and Budget.

The Administration's rationale is as follows:

By limiting the size and cost of [certain of the Eximbank] programs, the changes that are being undertaken will reduce distortions in the economy. At the same time, the economic program being put into place by the Administration will improve the competitive position of U.S. industry generally by reducing inflation, providing generalized incentives for increased investment and improved productivity and by removing artificial restraints and disincentives to trade.

The OMB document offers three reasons why the impact of the changes on U.S. exports will be limited. These reasons--and MAPI comment on them--are provided below:

- Fluctuations in U.S. export performance result primarily from cyclical changes in the U.S. and foreign economies.

MAPI COMMENT: While cyclical changes in U.S. and foreign economies do cause fluctuations in the overall level of U.S. foreign trade (exports and imports), such increases in exports do not necessarily result in increases in market share. Further, even though U.S. exports have increased substantially in recent years, it also is a fact that the United States has not experienced a trade surplus since 1975, the trade deficit widened in 1980 and 1981, and improvement is unlikely in 1982.

- The Export-Import Bank's direct credits finance less than 2 percent of U.S. exports of goods and services.

MAPI COMMENT: Since direct credits are not needed in connection with the financing of all exports of goods and services, the 2 percent figure cited by OMB is not very meaningful. It is more pertinent to note, as a generalization, that the \$4.4 billion in direct loans authorized for FY 1982--even excluding private participation and cash payments--support some 5 percent of annual sales of machinery and transport

equipment (excluding motor vehicles). Looking at the OMB argument in another way, as the level of Bank direct lending support is reduced OMB can argue that the Bank is supporting less and less of total U.S. exports. It should be noted in this connection that the OMB projection of Eximbank direct loans at an annual level of \$3.83 billion through FY 1987 would result in a very substantial decline in real terms in Bank support for exports.

- The preponderance of the Bank's loan guarantee programs are not competitive financial instruments for increasing exports and have limited ability, therefore, to generate additional U.S. exports.

MAPI COMMENT: While it is true that a substantial portion of guaranteed and insured transactions would go forward without Eximbank-supported guarantees and insurance, it is also true that the availability of guarantees and insurance makes possible a significant additional number of export transactions because the cover (1) enables corporations to assume a greater volume of transactions than they would in the absence of such cover, and (2) enables commercial banks to make more funds available for export financing.

The shortfall in use of fiscal year 1982 direct lending authority.-- It is of course disappointing that the Bank has not used about \$1 billion in its direct lending authority available for fiscal year 1982. While the shortfall is due almost entirely to the late postponement by the prospective purchaser of a nuclear power plant, the shortfall is particularly regrettable in view of the number of transactions which were directed to foreign affiliates or lost to unrelated foreign firms over the past year and a half. Indeed, in view of international competition and the extraordinarily high interest rates prevailing in the United States, the Bank could have used an even greater amount of lending authority in meeting foreign competition on projects calling for extended terms and on medium-term transactions for which the only Eximbank support during the current fiscal year was a very modest Discount Loan Program.

An important indication of the inadequacy of the Bank's lending programs over the past year and a half was provided by the results of a MAPI survey of a limited number of member companies concerning instances during 1981 in which they sourced from a foreign subsidiary or other foreign affiliate in order to provide competitive financing. The Chairman arranged for the MAPI report on the results of this survey to be published in the April 20 Congressional Record. In brief, the results of this survey were as follows:

- Of the 39 companies surveyed, 14 reported that 39 transactions, with a dollar value of \$386.7 million, were diverted in 1981 to foreign affiliates primarily, if not exclusively, because of more attractive financing.

- Nine companies reported that they had lost, or not bid on, products with an export value of some \$4.3 billion. Of this amount, about \$1.5 billion represented orders lost in head-to-head competition and \$2.8 billion represented potential business on which the U.S. firms did not bid.

As the MAPI report on the results of the survey points out, for various reasons the data obtained understates, perhaps by a considerable amount, the value of exports lost to foreign affiliates and unrelated firms by the reporting companies.

The principal conditions which resulted in these losses--the uncompetitive terms of Eximbank direct lending, uncertainty concerning the availability of Eximbank financing, and, in the case of medium-term transactions in particular, the extraordinarily high interest rates offered by U.S. commercial banks--have prevailed through most of 1982 as well. Thus it is safe to assume that the shifting of orders abroad and losses to unrelated companies have continued unabated through most of the current fiscal year.

The crucial importance of adequate funding for the Bank.--As noted at the outset, the revisions in the International Arrangement negotiated this summer have significantly improved the attractiveness of U.S. sourcing. As discussed later in this letter, the Bank's lending terms are not fully competitive with those of major competitors and this will be particularly true until January 1, 1983 when all of the Arrangement revisions go into effect. However, it is our impression that a number of exporters now believe that they can offer financing for exports from the United States which will put them within reach of that offered by most foreign competitors.

With more nearly competitive financing available in the United States, it is critically important that exporters be assured that the Bank had adequate funds to meet their needs if the loss of orders to foreign affiliates and unrelated firms is to be reduced. Sourcing decisions frequently need to be made many months in advance of a request for financing support and, if there is doubt as to the availability (as well as the competitiveness of the terms), U.S. firms will tilt toward sourcing abroad.

Restructuring of the Bank

In brief, S. 2600 would attempt to improve the operations of the Export-Import Bank by:

- Establishing fixed terms for Bank directors to enhance their independence of the Executive branch and to make them more responsive to congressional mandates.
- Exempting the Bank's activities (other than administrative expenses) from the Budget of the U.S. government.

- Establishing a \$2 billion Competitive Agricultural Commodity and Manufactured Product Export Subsidy Fund to provide interest subsidy payments to support exports of manufactures and agricultural products.

These provisions are intended to (1) eliminate the "stop and go" policies of Eximbank over the past decade and (2) provide Eximbank with funding adequate to meet foreign government-subsidized export financing, including the practice of "mixed credits" for which the United States has never developed an adequate response.

U.S. government policies with respect to the Export-Import Bank provide another manifestation of the inability of the United States to maintain a consistent, positive policy with respect to exports. During the past decade U.S. exporters have experienced a proliferation of export disincentives--nearly all of which, unfortunately, are still in place--and during that period the U.S. government has pursued an "on again/off again" policy with respect to the Export-Import Bank. During 1981 alone the Bank was, in effect, inoperative from February until July and was lending at rates well above the international Arrangement minimums from July 1981 until July 1982 when important revisions in the Arrangement went into effect. These policy swings raise questions by U.S. firms and foreign customers as to the extent of the United States' commitment to foreign trade.

The Bank and the Budget.--The Chairman presented in the May 27 Congressional Record a detailed and persuasive discussion of the problems created for the Bank by its treatment in the federal budget. As the Chairman pointed out, since the bulk of Bank loan disbursements follow commitments by several years, annual budget ceilings on net outlays--in effect limiting new commitments and disbursements--imposed by the budget can impair the ability of the Bank to plan and maintain the tempo of its operations over a period of years. It also should be noted that, apart from the budget process, there is ample oversight of Eximbank operating activity--by OMB, through periodic amendment of the Bank's charter and oversight hearings by the banking committees of the two houses of Congress, and through the annual review of Eximbank activity by the congressional appropriations committees resulting in statutory ceilings on Bank activities set forth in the annual Foreign Assistance and Related Programs Appropriations Act.

While we believe the case for excluding Eximbank from the budget is persuasive (indeed, more persuasive than in the case of some other government activities which already are "off-budget"), we realize that any "slippage" in the present budget environment could lead to requests that other government activities be taken "off budget." In this situation we suggest that the Congress direct the General Accounting Office to reevaluate the budget treatment of lending programs. While it is important that lending programs be included in data relating to the impact of the federal budget in the U.S. economy, there should be recognition of the important qualitative difference between loans which are to be repaid with interest and expenditures for, say, salaries, which are not.

The Competitive Agricultural Commodity and Manufactured Product Export Subsidy Fund.--While the June 1982 revisions in the international Arrangement for Officially Supported Export Credits narrowed the gap between the lending rates of the United States and other major trading nations, in most respects it did not close the gap. For example:

- From January 1, 1983 Eximbank's interest rate for loans to the "Intermediate" countries, those to which most of the Bank's loans go, will be 12.0 percent, .65 percent above the 11.35 percent minimum under the Arrangement. From July 5 until December 31, 1982 the Eximbank rate (12 percent) for the countries newly graduated from "Relatively poor" to "Intermediate" will be 1.25 percentage points above the Arrangement minimum during that period of 10.75 percent. In addition, Eximbank charges a "front-end" fee of 2 percent of the loan amount.
- For the "Relatively poor" countries, the Eximbank lending rate is 11 percent, 1 percentage point above the 10 percent Arrangement minimum. Eximbank also applies the 2 percent "front-end" fee to loans to these countries.

The Bank's interest rate on loans to the "Relatively rich" countries is the same as that of the Arrangement minimum--12.4 percent. However, the Bank has adopted a general policy of not extending loans to "Relatively rich" countries and, when loans are extended, they bear the additional 2 percent "front-end" fee.

A much broader differential exists with respect to "mixed credits." While participants in the Arrangement agreed not to offer mixed credits having a grant element of less than 20 percent, the revisions in the Arrangement also will prevent the United States (and other participants) from derogating from the other terms and conditions of the Arrangement. Thus the United States is in the position of having no means of matching an offer from, say, France which includes a grant element of 20 percent or more. The Subsidy Fund would provide a useful tool for enabling the Bank to match such offers and, hopefully, discouraging the practice of extending mixed credits.

As to involving the Bank in financing of agricultural exports, we have reservations:

- Export transactions involving agricultural products require highly specialized knowledge of international supply and demand conditions in a number of commodities. The Department of Agriculture has the staff specialists qualified to deal with such matters and there would appear to be no compelling reason to involve Eximbank.

- With some modest exceptions, Eximbank extends direct loans for transactions beyond five years. Most of the international trade in agricultural products is on a cash or short-term credit basis and the Commodity Credit Corporation has authority to extend credits with maturities of up to three years and has authority to subsidize those credits where necessary to match foreign subsidized credits.

Other Policy Issues To Be
Considered in the Bank's
Extension

Beyond the matters already discussed, the following issues should be addressed when amendment and extension of the Export-Import Bank Act is undertaken next year:

- Whether the Bank is to follow its explicit mandate to offer programs "which are competitive with the government-supported rates and terms and other conditions available for the financing of exports from the principal countries whose exporters compete with United States exporters" or its implied obligation to be self-sustaining (i.e., to earn at least sufficient income to make appropriate additions to its reserves). This issue is of more importance now than in earlier extensions of the Act because the Bank is sustaining losses and the Administration has put greater emphasis on minimizing Bank losses than in offering fully competitive programs.
- Consider an amendment to the Act directing the Bank or another government agency (e.g., the Department of Commerce or the Office of the U.S. Trade Representative) to maintain an ongoing effort to measure exports lost because of the inadequacy of U.S. export financing. The surveys carried out by the Bank in connection with its semiannual reports to the Congress on competitiveness are limited in terms of the number of exporters and banks contacted and generally are limited to an appraisal of the competitiveness of U.S. export financing.
- Review the provisions of the Act which restrict Bank support for exports to South Africa. We do not believe the Congress intended that the provisions adopted in 1978 would result in no Bank support for sales to South Africa, but this has been the effect. Further reasons for review of these provisions are: (1) no other major trading nation has adopted comparable restrictions on supporting exports to South Africa and (2) the number of creditworthy foreign markets is dwindling.

- Review the various legislative restrictions on Bank support for transactions involving communist countries. Although, for political and economic reasons, the current period is not a propitious time for revising those provisions, important changes can take place over the multi-year period of an extension of the Bank's charter. In particular the Trade Act provisions linking Eximbank support to a communist country's emigration policies and calling for annual congressional review of presidential decisions of eligibility of individual countries need reexamination. In view of the worldwide "glut" of refugees --in the Middle East, Africa, Central America and Haiti, Afghanistan, Kampuchea, Vietnam--a program intended to stimulate the flow of emigres seems inappropriate. Further, the annual review procedure of presidential determinations creates uncertainty, particularly in view of the time needed to develop projects.

* * *

This concludes our comments. We commend the Chairman and the Subcommittee for their attention to an area of U.S. foreign trade policy which is of critical importance for a great number of capital goods exporters.

Sincerely,

Charles Stewart
P r e s i d e n t



September 13, 1982

Honorable H. John Heinz III
443 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Heinz:

I write to urge your support of the Export-Import (Ex-Im) Bank provisions now being debated in the U.S. Senate.

As a Pennsylvania corporation with direct and indirect export sales in excess of \$50 million in 1981, we are absolute in stating that the Ex-Im was essential in the promulgation of these sales. Furthermore, a continued and more muscular Ex-Im will enhance present and future sales potential overseas.

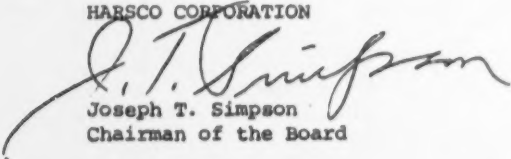
We can compete with any foreign manufacturer of our type of products on the basis of value, delivery, price and other commercial factors. But we cannot compete with the Governments of Japan, France, Germany, Canada, Italy, Brazil, Spain and others who provide official export financing, at below market rates, for the customers of their own markets. The U.S. is surely strapping its lending authority in a straight jacket, a sort of sales destructive system that discards one of the only trade advantages we can muster. Yet, the subject of predatory financing being offered by our competitor's governments is not even on the agenda of the forthcoming GATT meetings, and this, to most of us in this country, is one of the most important and controversial issues in the world trade system.

Ex-Im financing means jobs, a great many of U.S. jobs, and it will be the labor force of this country who will suffer most if the system is discarded or reduced. It will be the U.S. Federal and State tax coffers who will also suffer from loss of tax revenues estimated to be \$13 for every one dollar spent by Ex-Im.

We need a strong congressional and administrative commitment to export financing not only to help us compete overseas, but as a very positive and beneficial step in helping a great many of the unemployed to get back on the job and for the overall benefit of stepping up the economic vitality of this country.

Sincerely,

HARSCO CORPORATION


Joseph T. Simpson
Chairman of the Board

JTS:mb
Al/S4-12
cc: Robert Best

CAMP HILL, PA 17011
717/763-7064

TELEGRAM

SEPTEMBER 16, 1982.

Senator JOHN HEINZ III,
*International Finance and Monetary Policy Subcommittee, of the Senate Banking
 Committee, Washington D.C.*

Understand that you are having oversight hearings on the importance of Ex-Im Bank to U.S. exporters. As a major exporter of locomotives and off-highway equipment, we can assure you that competitive export financing is essential to our ability to remain competitive in the world market. Ex-Im Bank's ability, therefore, to function on a competitive basis with Canada, Japan, Germany, France, etc. is therefore sustaining roughly 40 percent of our jobs in northwestern Pennsylvania since more than 40 percent of our product is shipped offshore and a high percentage must be competitively financed.

We appreciate the fine efforts you have made in the past to keep the United States in the forefront of world trade, and we urge you to continue those efforts with our full support.

CARL SCHLEMMER,
 VICE PRESIDENT AND GENERAL MANAGER,
Transportation Systems Business Operations, General Electric Co.

DRAVO,
 Pittsburgh, Pa., September 16, 1982.

Hon. JOHN H. HEINZ III,
*Chairman, U.S. Senate Banking Subcommittee on International Finance,
 Dirksen Office Building, Washington, D.C.*

DEAR JOHN: Dravo Corporation strongly supports your efforts to make the Export-Import Bank of the United States competitive.

Certainly, we are not opposed to Export-Import Bank efforts through Mr. William Draper, its president, to reduce or eliminate the need for governmental financial subsidies in export sales. In fact, he should be applauded for these efforts, as well as the agreement to guarantee private loans in foreign currencies.

Nevertheless, it is true that Dravo Corporation has been forced to decline certain proposal opportunities on international engineering and construction jobs in the past year due to the probability that a U.S. based bid would not be competitive in the financial area. In other cases, we have directed business to foreign affiliates existing or to be formed rather than not participate.

Your support is needed in Pittsburgh where the unemployment levels exceed 12 percent, as is also true in other parts of the United States. Efforts to make Ex-Im Bank more competitive supports not only the named U.S. exporter, but the second and third level suppliers and subcontractors from throughout the nation. In the Pittsburgh area alone, Dravo has over 6,000 employees directly or indirectly involved in exports.

Though it is understandable that our export balance may be helped by commodity shipments, it is necessary to make U.S. suppliers competitive in the financial area to hold or improve our worldwide levels of participation. We must become and remain competitive.

We applaud your leadership in promoting an environment that will make American firms more competitive in the international market-place.

Sincerely,

ROBERT DICKEY III.

PARK DROP FORGE DIVISION,
 Cleveland, Ohio, June 28, 1982.

Hon. JAKE GARN,
U.S. Senate, Washington, D.C.

DEAR SENATOR GARN: We manufacture forgings used in aircraft, railroad locomotives and other large power generation engines. We supply manufacturers heavily engaged in the export market.

We are concerned that the export market has been seriously impaired by the declining ability of the Export-Import Bank to provide competitive financing in foreign sales.

Government must enhance the American industrial position by improving our ability to compete; that means an aggressive U.S. export policy especially in the

area of financing. Without it, the United States cannot expect to negotiate enforceable international agreements to create free trade.

A strong U.S. export market will create more jobs, increase tax revenues and reduce trade deficits. These are the obvious benefits. More importantly, a strong market will provide the needed capital for research and development to insure an equally healthy future.

Take, for example, export sales of commercial airplanes. The U.S. has been unquestionably superior in aeronautical technology. That position is now incredibly, threatened.

During the past decade, foreign aircraft sales amounted to more than 35 billion dollars and, with spare parts production, represented 249,000 jobs annually in the U.S. economy. Tax revenues in the same period amounted to more than 44 billion dollars. Now we are in a distinct period of decline. We must not allow it to continue.

It is possible that up to 56 percent of our forgings produced in 1980 and 45 percent of our 1981 forgings ended up in exported equipment. That percentage of our business over the two-year period represented over 42 million dollars. Obviously, a healthy export market is important to us.

In Ohio, 312 million dollars in export sales were financed through Eximbank. As of May, 1982, Eximbank regular loans are down by 50 percent, and loan guarantees have declined by 88 percent. Admittedly, a recessive world economy has contributed to these declines, but restrictions imposed on Eximbank activities because of decreased funding must take a major share of the blame. Congress must help vitalize industry by improving the ability of American manufacturers to meet the rapid development of new technologies and aggressive competition of foreign countries. We cannot remain hamstrung by the additional problem of competing against subsidized financing.

We urge you to support an Export-Import Bank, well funded with strong aggressive policies, and whose public posture is one of willingness to compete against foreign subsidized financing.

We urge you and your colleagues in the Congress to establish a strong, comprehensive, long-term export policy.

Very truly yours,

STANLEY J. LOCK,
Vice President and General Manager.

DRESSER
INDUSTRIES

DRESSER INDUSTRIES, INC. • DRESSER BUILDING • ELM AT AKARD • DALLAS, TEXAS 75201

1982 SEP 13 11:11:26

JOHN V. JAMES
CHAIRMAN OF THE BOARD
AND
CHIEF EXECUTIVE OFFICEREXECUTIVE OFFICES
214/748-6704

September 8, 1982

The Honorable John Heinz
United States Senate
443 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Heinz:

I would like to take this opportunity to commend you on your continuing efforts on behalf of the Export-Import Bank and to express my support for S.2600. I share your concern that this country must maintain and develop its export potential if it is to survive in a highly competitive world market.

As a businessman and as a member of the President's Export Council, I have followed S.2600 with particular interest. Dresser Industries, Inc. is a member of the Coalition For Employment Through Exports, Inc., which testified in June before the Senate Subcommittee on Foreign Operations concerning the Export-Import Bank, commenting favorably upon S.2600.

Please feel free to keep me informed as to your continuing efforts on behalf of the Export-Import Bank.

Very truly yours,



JVJ/gg



DRESSER INDUSTRIES INC. EXECUTIVE OFFICES DRESSER BUILDING 0 ELW AT AKARD 0 DALLAS TEXAS 75201

GLEN, C. LAJCE
CR. M. MANAGER

May 21, 1982

Wayne Abernethy
Commission on Banking, Housing
and Urban Affairs
5300 Dirksen
Senate Office Building
Washington, DC 20510

Dear Wayne:

In response to your request for orders lost because of competitive financing, we wish to cite the following:

1. TKI, Turkey - currently we are negotiating and continue to negotiate for financing on two transactions for the subject company, i.e. the government coal entity; one is for a walking dragline valued at \$24.6 million and another for twelve drills valued at \$12.8 million. Attached is a copy of our two application letters dated April 16, together with Eximbank's negative response. Eximbank developed a position on large draglines 10 to 12 months ago to only guarantee vs. provide Direct Loan funds as they believed we have no competition. This is no longer true. On a transaction for Broken Hill Proprietary Ltd. of Australia we pointed out on February 11 specific competition on the large dragline by Ransome Rapier of the U.K. who offered financing at 80% for five years from start-up date at 11-1/4%. This, incidentally, was confirmed by Eximbank.

Subsequently, however, we lost the order to our fellow competitor, Bucyrus Erie, but the fact remains this competition is real and the U.K. company is prepared to start building larger rigs to grab their share of the market. I am reasonably sure TKI would have consulted with them also. As far as drills are concerned, our prime competition has been from Japan. This order may well be lost to the U.S. if Eximbank does not approve the guarantee, either under the direct loan or the FCIA program as we have talked to over 25 banks who must have the political risk covered for them to finance.

2. Taiwan Power Company, Taiwan - Dresser tried to get Eximbank's commitment, but was refused. To date we have not yet been able to confirm that the order finally did go to the Swedes. See attached summary.

TELEPHONE 214/746-6742 • TELEX 72-2488 • TWX 910-951-4136 • CABLE DRESSERIND
TELECOPY 214/746-8059/80/85 • RAPIFAX 214/746-8058

3. Permargo, U.K. - a drilling rig valued at \$16 million was manufactured in the U.K., which should have been U.S. business. See attached summary.
4. Australian Draglines - The attached summary, indicates the status as of February, 1982. While our Marion Power Shovel Division continues to work closely with its' Australian customers and has received a fair share of orders without direct loan assistance, unless we develop an understanding of eligibility of financing on all draglines, the U.K. suppliers will wedge their way into this market. I have been telling this story to Eximbank since their attitude on financing changed with the shortage of direct loan funds in early 1981. The recent bid by the U.K. referenced in No. 1 above is a prime indication of U.K. efforts.

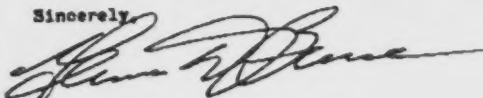
For your information in 1973/4 100% of offshore oilfield platforms were manufactured in the U.S. At that time, due to the oil scare, Eximbank was restricted from financing this equipment. Today, every major industrial country of the world manufactures offshore equipment and probably less than 20% is now built here. Foreign financing benefits played a major part in this change. Hopefully it will not happen in the case of draglines, drills and shovels manufactured by our Marion Power Shovel Division.

5. BRPM, Morocco - In June, 1981, our Ideco Division was working on a quote for a drilling rig valued at close to \$13 million. This award was made to our subsidiary in France, primarily because Eximbank denied approval due to budget constraints and their belief that Eximbank financing probably not needed.
6. WSM Coal Co. Ltd. (Burnett and Hallenshire), U.K. - two small draglines valued at \$10.13 million. The customer decided to purchase from the U.K. Eximbank felt our indication that competition from U.K. source inadequate. I believe the customer made their own assessment of Eximbank support and, therefore, asked us to withdraw the Eximbank application.
7. Ministry of Transportation, Colombia - \$14 million order for 120 motorgraders awarded to Komatsu in Japan on basis of ten year terms, including two years grace as customer specified fixed rate terms; the commercial bank financing we had to arrange without Eximbank support resulted in interest charges nearly double the 9-1/2% required by the Colombians. Flexibility of the Japanese and low interest worked in their favor.

Currently with the Administration's continued limitations both as to dollar amount and overall funds amount under the Discount Loan program, we are being forced to consider offshore sourcing for the \$2.5 to \$5.0 million orders as well as see the Japanese and French put in a better position to respond more readily on this size order.

Unfortunately, once foreign competition captures a market, it becomes very difficult to regain our position. Any efforts you can make toward expanding both the Direct Loan program and the Discount Loan program funds will be extremely beneficial to not only Dresser Industries, Inc., but also to the employees who would be supported by these exports. Although I have mentioned specific customers above, I would appreciate your maintaining the confidentiality of their names.

Sincerely,



GDB/lke
Attachments

cc: Ardon Judd, Dresser Industries, Inc. - Washington Office



EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

CABLE ADDRESS "EXIMBANK"
TELEX 99-601

April 20, 1982

Dresser Industries, Inc.
Elm at Akard
Dallas, Texas 75201

Attention: Mr. William A. Sherman
Assistant Credit Manager

Re: Turkey - TKI - Dragline and Drills

Gentlemen:

This is in reply to your inquiries of April 16, 1982, concerning possible Eximbank assistance in financing approximately \$37.4 million in U.S. costs of one dragline and twelve drills for sale to TKI. Due to the continued balance of payments situation in Turkey, heavy debt and high level of debt service payments, continued need for debt rescheduling, dependence on foreign aid, and the fact that we have extended substantial amounts of new exposure on an exceptional basis as part of the OECD package of assistance to Turkey over the past three years, we regret that we are unable to encourage requests for financial assistance on a regular basis at this time.

Sincerely yours,

Clayton Morris
Vice President
Africa and Middle East Division

RECEIVED

APR 22 1982

W. A. S.

*cc: [unclear]
[unclear]*



DRESSER INDUSTRIES, INC., EXECUTIVE OFFICES DRESSER BUILDING D ELM AT AKARD D DALLAS, TEXAS 75201

WILLIAM A. SHERMAN
ASSISTANT CREDIT MANAGER

April 16, 1982

Mr. LeRoy LaRoche
Africa and Middle East
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, D.C. 20571

RE: Türkiye Kömür İşletmeleri Genel Müdürlüğü (TKİ),
Turkish Coal Board, Ankara, Turkey

Dear Mr. LaRoche:

Please process this request for a preliminary commitment for a proposed sale of one (1) Marion 8050 or 8200 Walking Dragline plus spare parts, CIF Value of approximately U. S. \$24,600,000 to TKI, Ankara, Turkey.

The dragline is to be used in the area of Sivas, East of Ankara, to increase the amount of lignite available for domestic use.

Our quotation will provide for training of Turkish operators by Marion Power Shovel personnel.

TKI appears to have adequate engineering and contracting resources within the organization and additional expertise is available through Dresser Industries.

Critical dates are:

1) Bid Date	June 9, 1982
2) Award Date	August 30, 1982
3) Contract Signing Date	October 31, 1982
4) Delivery Date	April 30, 1984
5) Start-up Date	June 30, 1985

As you know, the production and assembly of a large dragline such as the 8050 or 8200 is lengthy. We therefore request that the repayment schedule start six months after start-up.

TKI will review any special Turkish safety standards with us at the time of our technical presentation to them, which is scheduled for July 15, 1982.

This transaction will be guaranteed by the Turkish Ministry of Finance.

Disbursements under this transaction are to be structured to coincide with various stages of production. Our planned schedule follows:

1) * 15%	- \$ 3,690,000	October 31, 1982
2) 10%	- 2,460,000	February 28, 1983
3) 15%	- 3,690,000	April 30, 1983
4) 15%	- 3,690,000	July 31, 1983
5) 15%	- 3,690,000	October 31, 1983
6) 10%	- 2,460,000	February 28, 1984
7) 20%	- 4,920,000	April 30, 1984
100%	\$24,600,000	

*Downpayment

Our foreign competition is Kansom Rapier of the United Kingdom.

We estimate this contract will add 1,137,000 man hours of labor in our plant in Marion, Ohio. Marion County, in which the plant is located, is presently experiencing a 16.7% unemployment rate, more than 7% higher than the national rate!

This transaction cannot be done without your support. We, therefore, request that you offer one of the following alternatives:

- 1) A direct loan covering 85% of the total transaction.
- 2) Your U. S. dollar guarantee of 85% of the transaction.
- 3) Your guarantee of 85% of the transaction, valued in Yen.

In that our Bid date is June 9, 1982, please process this request at the earliest possible time.

Thank you very much for your consideration.

Regards,


William A. Sherman

WAS/r1b

Disbursements under this transaction are to be structured to coincide with shipment. Our planned schedule is as follows:

1) *15%	- \$ 1,920,002	October 31, 1982
2) 14.1667%	- 1,813,333	January 31, 1983
3) 14.1667%	- 1,813,333	April 30, 1983
4) 14.1667%	- 1,813,333	July 31, 1983
5) 14.1667%	- 1,813,333	October 31, 1983
6) 14.1667%	- 1,813,333	February 28, 1984
7) 14.1667%	- 1,813,333	April 30, 1984
**100%	\$12,800,000	

*Downpayment

**Columnar figures do not add to 100% due to rounding.

Our foreign competition is P & H Kobe, Japan.

We estimate this contract will add 545,750 man hours of labor in our plant in Marion, Ohio. Marion County, in which the plant is located, is presently experiencing a 16.7% unemployment rate, more than 7% higher than the national rate.

This transaction cannot be done without your support. We, therefore, request that you offer one of the following alternatives:

- 1) A direct loan covering 85% of the total transaction.
- 2) Your U. S. dollar guarantee of 85% of the transaction.
- 3) Your guarantee of 85% of the transaction, valued in Yen.

In that our Bid date is June 9, 1982, please process this request at the earliest possible time.

Thank you very much for your consideration.

Regards,


William A. Sherman

WAS/r1b



DRESSER INDUSTRIES, INC., EXECUTIVE OFFICES, DRESSER BUILDING 0 ELM AT AKARD D DALLAS, TEXAS 75201

WILLIAM A. SHERMAN
ASSISTANT CREDIT MANAGER

April 16, 1982

cc: *Fogler*
Mr. LeRoy LaRoche
Africa and Middle East
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, D.C. 20571

RE: Turkiye Korum Isletmeleri Genel Mudurlugu (TKI),
Turkish Coal Board, Ankara, Turkey

Dear Mr. LaRoche:

Please process this request for a preliminary commitment for a proposed sale of twelve (12) Marion M-2 Drills plus spare parts, CIF value of approximately U. S. \$12,800,000 to TKI, Ankara, Turkey.

The drills are to be used in the area of Sivas, east of Ankara, to increase the amount of lignite available for domestic use.

Our quotation will provide for training of Turkish operators by Marion Power Shovel personnel.

TKI appears to have adequate engineering and contracting resources within the organization and additional expertise is available through Dresser Industries.

Critical dates are:

1) Bid Date	June 9, 1982
2) Award Date	August 30, 1982
3) Contract Signing Date	October 31, 1982
4) <u>Delivery</u>	<u>Start-up</u>
Two Units: January 31, 1983	May 30, 1983
Two Units: April 30, 1983	August 31, 1983
Two Units: July 31, 1983	November 30, 1983
Two Units: October 31, 1983	February 28, 1984
Two Units: January 31, 1984	May 30, 1984
Two Units: April 30, 1984	August 31, 1984

We request that separate notes be issued for each shipment and that repayment be scheduled to begin six months after start-up in each case.

TKI will review any special Turkish safety standards with us at the time of our technical presentation to them, which is scheduled for July 15, 1982.

This transaction will be guaranteed by the Turkish Ministry of Finance.

Taiwan Power Company

In late October, 1981, Dresser advised Eximbank of a need for financial support for electrostatic precipitators valued at \$9 million. Eximbank stated they would only consider financing transaction if they were on the Taiwan Government approved list of transactions even though we indicated foreign competition from Germany, Switzerland and Sweden. The Talin Steam Power Station was not on the approved list, thus no Eximbank financing.

Subsequently, Taiwan Power Company told us our prices and technical specifications and the Swedish competitor's were comparable but unless we could offer more acceptable financing the order would be awarded to the Swedes, who were offering 8.15% interest rate and nine year terms, including two years grace for construction.

The tender date was just extended and we are not trying to use the Discount Loan window at Eximbank. It is doubtful that Taiwan would see a 12-1/2 to 12-3/4% interest rate as being sufficiently competitive, but we will try.

Peruargo (Mexico)

From March through June, 1980, Dresser, a U.S. offshore builder, a U.S. commercial bank and the customer negotiated with Eximbank for one jack-up drilling rig valued at about \$35 million including an \$8 million Dresser Ideco drilling rig. The customer did not even consult Eximbank on a duplicate unit signed at the same time. Total unit prices were comparable per the customer. Eximbank's PC provided on one unit only 42.5% (as insufficient funds to continue the 65% support) on eight year terms at 8-3/4%. Actual delivery was to be from 9/30/81 to 3/31/82. ECGD gave same length of terms at 7.5% on 85% of contract with ECGD premium at about 2.5%. Customer went with U.K. financing on 85% for both units based on total coverage and far less cumbersome documentation. Dresser still furnished the rigs by sub-contracting to a U.K. contractor and we have just completed shipping the final items for both units.

Currently we have new inquiry for a jack-up drilling unit at \$20 million, which Eximbank states may offer 65% financing at 12% plus 2% flat fee if we first prove foreign competition. Once again we tell our customer to get foreign bids first to see if we can consider financing.

Australian Draglines

Currently our Marion Power Shovel Division has negotiations under way on 15 draglines to 8 different customers for first class Australian companies and joint ventures valued at close to \$200 million for U.S. content portion. As much as 35% to 40% by value additional is being manufactured in Australia.

Previously we advised Eximbank that if they do not provide financing for those larger draglines (over 45 cubic yards), the U.K. competitor will likely decide to get back into this business. On February 11 we received advice that the U.K. competitor was invited to bid and had submitted a very attractive finance package for a 60 cubic yard dragline. We immediately notified Eximbank for verification on this one transaction and requested financial not guarantee support.

Eximbank's attitude has been an open invitation for competition in this area. Presently unemployment in Marion County, Ohio, where we manufacture the dragline, is 20.5%.

Up to the present time Eximbank has only been willing to extend financial guarantees on 65% of the U.S. portion. Our Australian customers do not feel the guarantees are necessary when dealing for commercial bank financing and during the last year the guarantees combined with financing available from PEFCO ends up just as costly as commercial bank financing.

STATEMENT OF
AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.
CONCERNING THE EXPORT-IMPORT BANK
SUBMITTED TO
SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

September 29, 1982

The Aerospace Industries Association of America, Inc. (AIA), representing the nation's major manufacturers of commercial and business aircraft, aircraft engines, helicopters and related components and equipment, would like to take this opportunity to discuss our concerns regarding the future of the Export-Import Bank as an effective tool in the effort to increase U. S. exports. As the trade association for one of the nation's leading exporting industries, we appreciate the Subcommittee's timely decision to hold the recent oversight hearings on the Bank's performance over the last year and its role in our overall export strategy. We believe that the testimony presented to the Subcommittee during these hearings will provide an important source of information for the next Congress to draw upon during its consideration of an extension for the Eximbank charter.

We are, quite bluntly, alarmed by the current Administration's attitude toward the Export-Import Bank, and the policies which the Bank has implemented in response to that attitude. We believe that such policies have communicated to both our foreign competitors and customers the message that the U. S. no longer places the same degree of importance on exports that was once the case. From the point of view of the American manufacturers of commercial aircraft, the Bank has erected a formidable set of stumbling blocks to obtaining financing

for export sales. The one-time, "up front" fee of two percent on all loans effectively adds a half percent to the interest cost of the loan; this initially discouraging aspect is compounded by the Bank's further decisions to:

- Turn down loans to airlines in developed countries absent the demonstration of competition;
- Refuse loans for allegedly "established" aircraft (e.g., the Boeing B-747, B-737-200 and B-727) on the basis that they do not have any competition;
- Require that airlines requesting direct credit loans be actively considering a competitive bid from a foreign manufacturer;
- Discourage financing for follow-on purchases of additional aircraft.

Consequently, while the depressed state of the world economy has curtailed demand for major capital purchases, the shifting orientation of the Bank's policies has also been a major factor in creating a situation where the Bank has arrived at the end of the current fiscal year with \$1 billion in uncommitted resources.

For an Administration whose principal domestic goal is a strengthened national economy -- and having recognized the necessity of increasing export sales as a means to that end -- such policies are, at the very least, inconsistent. They impose severe restrictions on what has unquestionably been the most effective export promotion entity, undermining its ability to generate the benefits associated with Bank-financed exports -- the increased federal, state and local tax revenues, and decreased unemployment payments that result from export-related jobs. In FY 1981, Eximbank loans, guarantees and insurance

supported \$18.6 billion of exports, and Commerce Department figures show that 558,000 American jobs were supported by the Bank's 1981 operations. In the case of the American aircraft industry, it is important to note that those jobs created as a consequence of export sales are not limited to an aircraft manufacturer's assembly plants, but are spread throughout the thousands of small- and medium-sized businesses which constitute the subcontractor and supplier base. The Bank, furthermore, receives no appropriated funds and thus does not compete for scarce budget resources. The Eximbank uses loan authority only, operating as a self-sustaining institution by raising money in U. S. capital markets -- and has returned more than \$1 billion in dividends to the U. S. Treasury.

As an element of our overall export strategy, the Export-Import Bank has played a number of important roles. It has assisted in the securing of export sales that private lenders are unable or unwilling to finance in the presence of special commercial or political risks, and it has been a critical factor in U. S. exporters' ability to meet competition from foreign competitors whose own export financing is subsidized by their governments. This last factor has had sobering consequences for our industry, whose pre-eminence in the world market is today threatened. We have now reached a point where maintaining or increasing our market share will be extremely difficult, in the face of heavy new foreign competition and a radically altered worldwide economy. The combination of skyrocketing fuel costs and a weakened international economy has directly impacted the airlines' ability to purchase new equipment. To respond to this dilemma, our industry must build the optimally fuel efficient aircraft -- an effort entailing billions of research

dollars alone. Such costs may escalate to the breaking point, as the Administration has targeted government participation in aeronautical research for huge cuts, or potential elimination -- a situation that may seriously jeopardize the future competitiveness of American-made aircraft.

That pressure to produce the most fuel efficient aircraft is intensified by the factor which we view as the most critical to the future role of the U. S. in the commercial transport market -- the rapid growth in the manufacturing and marketing capabilities of our European competitors. We are faced with competition which is strong, competent, and most importantly, well-financed. The trend in Airbus sales is evidence of that strength -- Airbus now claims 46 airline customers, with 190 A300's already delivered. As of June 30, 1982, firm unfilled orders for the A300 and A310 numbered 162 compared with 209 unfilled orders for U. S. manufactured widebodied aircraft. Counting deliveries, firm backlog and options, Airbus asserts sales of 506 aircraft. Moreover, the fact that airlines tend to stick with their choice of aircraft through at least one generation means that sales lost now are likely to stay lost for 20 years or more.

We have no fear of -- and indeed, would welcome -- such a competitive contest were it to be decided on the quality of the product. Unfortunately, our foreign competitors enjoy an advantage over us in terms of marketing -- their government-subsidized financing mechanisms. The economies and national prestige of the parent countries of our largest and most effective rival have been tied, in part, to the success of their aeronautical industries, and these countries are more than willing to pay for that success. The result has been

highly aggressive financing practices, which, combined with the Bank's current policies, has been most effective in luring sales away from American manufacturers. The Export-Import Bank's 1981 Annual Report notes that such government financing aided Airbus Industrie in its capture of 35 percent of the world market for commercial jet aircraft in 1981 -- a 30 percent increase over its five percent share in 1976.

Ideally, all subsidized financing should be eliminated, with products standing or falling on the basis of quality and price. But this is an ideal situation that is yet to be attained, and for the United States to assume that unilateral renunciation of subsidized financing under any circumstances will hasten that ideal marketplace is both naive and self-defeating. The U. S. has insisted upon approaching arms limitation and reduction talks from a position of strength, and we should approach negotiation on export subsidies from a similar stance. An aggressive, well-funded Export-Import Bank is our most effective weapon for neutralizing export subsidies offered by our competitors, and our most compelling inducement for bringing those competitors to the bargaining table.

Therefore, although we intend to continue to fight for what we believe to be a sensible and far-sighted way of preserving U. S. aeronautical supremacy through judicious use of what is left of the Eximbank, we are realistic enough to recognize that aircraft financing worldwide has to change.

Such changes may eventually take the form of international access to alternate financing devices -- such as International Equipment Trusts -- for aircraft purchases, or an international agreement that would provide access

to commercial credit sources of long-term financing for U. S. and foreign manufacturers. While we are committed to working towards the long-range goal of removing all barriers to free trade, we firmly believe that the Eximbank must be maintained as a vigorous short-term expedient.

Looking towards next year's consideration of extending the Bank's charter, we concur with the recommendation made by many of the witnesses who appeared before the Subcommittee earlier this month. Given the realities of the kind of competition and subsidized financing that today characterize world trade, we believe that the Bank's principal directive should prioritize its mandate to be competitive, and secondarily, self-sustaining.

The Export-Import Bank restructuring legislation (S. 2600) introduced by Senator Heinz is, in our view, a thoughtful and substantive vehicle for discussion and debate on desirable changes to the Bank's charter, which will expire at the end of FY 1983. The provisions establishing fixed terms for the Bank's Directors will focus attention on the need for the Eximbank to be independent of political pressures, and removing the Bank's programs from the unified Federal budget will more accurately reflect the reality of the Bank exercising loan authority only, as opposed to direct outlay authority. We believe these two provisions will strengthen the Export-Import Bank institutionally.

The third provision of S. 2600, the establishment of a Competitive Agricultural Commodity and Manufactured Product Fund, will provide U. S. exporters with the assurance that they will be able to compete with the predatory credit subsidies offered by our foreign competitors. Such a "war chest fund" will also enhance the ability of our negotiators to reach agreement on ending what could ultimately become a costly export credit war.

We hope that the proposals set out in S. 2600 will provide a basis for the 98th Congress to work towards a strengthened Export-Import Bank which will be better equipped to assist industry in reaping for all Americans the benefits of a healthy export environment.

1982 SEP 23 AM 8 29

INGERSOLL-RAND

Office of the Chairman
Ingersoll-Rand Company
Woodcliff Lake, New Jersey 07675

September 9, 1982

The Honorable John Heinz
United States Senate
Washington, D. C. 20510

Dear Senator Heinz:

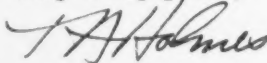
Thank you for your letter of July 14 enclosing a copy of S.2600 which you and several colleagues are sponsoring.

Ingersoll-Rand, along with most exporters from the United States, has watched with dismay the growth of exports by other nations, largely through assistance and subsidies by the foreign counterparts of EX-IM Bank, and often at the expense of U. S. exports. The NAM published figures recently, showing that Japan supported 44% of their 1980 exports by government provided export insurance, guarantees and direct loans. The figure for the UK was 39%, while for the U. S. the figure was only 5.7%. A recent survey by MAPI indicated that a significant amount of exports is being lost because of non-competitive U. S. export financing. The loss of orders for capital goods is particularly severe.

In addition to the specific points in S.2600, which we support fully, we laud your efforts to once and for all explain to the members of Congress that EX-IM Bank is not and should not be an item in the Federal Budget. As you so clearly point out on page 4 of the Congressional Record, when the bank is operating profitably, it is carried in the Federal Budget as contributing to the Federal deficit. Why the members of Congress are unable to understand that, is difficult for us to comprehend.

We whole-heartedly support S.2600 and believe that speedy enactment by Congress will contribute substantially, and probably quickly, to an economic recovery in the United States. That, in turn, will impact favorably on an eventual worldwide economic recovery.

Very truly yours,



Thomas A. Holmes
Chairman

TAH:LPJ

Grumman Corporation

1000 Wilson Boulevard, Suite 2100, Arlington, VA 22209

JOHN F. CARR

vice chairman of the board

September 7, 1982

1982 SEP 10 AM 11:25

Honorable John Heinz
United States Senate
443 Russell Senate Office Building
Washington, D. C. 20510

Dear Senator Heinz:

Thank you for sending information relating to proposed changes in the Export-Import Bank Act. We appreciate your seeking our comments inasmuch as we believe the banking operation needs to be strengthened to benefit U. S. business opportunities abroad.

We are concerned with the ability of U. S. firms to remain competitive in the international marketplace. While it is relatively easy for foreign manufacturers to enter the U. S. market, it is increasingly difficult for U. S. firms to penetrate foreign markets. This difficulty stems from the fact that many foreign governments subsidize -- directly or indirectly -- their business concerns.

Grumman's interest in this issue is based on our relationship as a subcontractor to The Boeing Company. Grumman manufactures the center sections for the 767 and the spoilers for the 757. Sixty percent of sales on these aircraft are overseas. Of those, at least half of the sales rely on Export-Import Bank loans. Unquestionably, the inability of U. S. aircraft manufacturers to obtain financing on terms competitive with terms offered by foreign aircraft manufacturers results in lost sales of U. S. manufactured aircraft and tends to eliminate the favorable balance of trade which U. S. aircraft exports have enjoyed for decades. The special export subsidy fund proposed in your bill would go a long way toward alleviating this situation.

In reference to other main points of the legislation, we agree that loans should no longer be listed as expenditures. By continuing to treat loans in this

manner, the program deceptively appears as a giveaway program rather than as the profitable venture that it is. Further, the present practice arbitrarily limits the Bank's activities unnecessarily.

We are in support of the move to make the board of directors independent. The bank must be free to respond quickly to changes in the economic climate and establishing four-year terms should provide the flexibility the Bank needs.

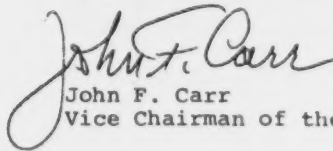
We agree that the Export-Import Bank needs to be continued and strengthened. The charter should be extended for an additional five years, as proposed.

Taken together, the results of this legislation will help protect U. S. firms trying to meet the conditions of the international marketplace and help strengthen the economic health of the United States.

We appreciate your interest in this issue and thank you for your initiative in developing sound legislative proposals.

Very truly yours,

GRUMMAN CORPORATION

A handwritten signature in dark ink, appearing to read "John F. Carr". The signature is fluid and cursive, with the first name "John" being the most prominent part.

John F. Carr
Vice Chairman of the Board

JFC:ms

Communications
Workers of America
AFL-CIO

1925 K Street, N.W.
Washington, D.C. 20006
202/785-6723

James B. Booe
Executive Vice President

MAILGRAM - WESTERN UNION

September 15, 1982

The Honorable John Heinz
Chairman
Subcommittee on International Finance
and Monetary Policy
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

The Communications Workers of America, an AFL-CIO affiliate, supports efforts to help our country's industries compete in world markets.

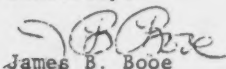
We are alarmed at what we perceive as cross-signals from the Reagan administration: those who want to cut the budget would make significant reductions in the direct loan authority of the Export-Import Bank, even though it may not have a dollar out-flow effect on the budget while others talk about fair trade and jobs. At this time, when our country and much of the non-communist world are plagued by unacceptable levels of unemployment, we are concerned that our industries may not be given the same kinds of advantages as are enjoyed by the competitors. Key industries affected are telecommunications equipment, computers, airplanes and heavy machinery. These industries in Japan, the United Kingdom, France and Germany all enjoy the benefits of active and vigorous export-subsidy programs, using various kinds of public and private funds.

We view export financing and the Export-Import Bank as necessities in enabling American firms, using American labor, to compete in the international market place.

We understand your bill, S.2600, would provide greater independence and a more rational budget procedure for the Bank, as well as additional resources to be used only when necessary to meet predatory subsidies of our trading competitors.

We support the provisions of S.2600.

Sincerely,


James B. Booe
Executive Vice President

cc: ALESA
Hall Sisson

United Brotherhood of Carpenters and Joiners of America

LEGISLATIVE DEPARTMENT

CHARLES E. NICHOLS
GENERAL TREASURER
DIRECTOR



KEVIN B. CAMPBELL
LEGISLATIVE ADVOCATE

101 CONSTITUTION AVENUE, N. W.
WASHINGTON, D. C. 20001



September 14, 1982

The Honorable John Heinz, Chairman
Subcommittee on International Finance
and Monetary Policy
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

The United Brotherhood of Carpenters and Joiners of America strongly supports a positive, job-creating export policy.

One important aspect of such a policy is adequate credit facilities to enable American industries to produce in America for export to foreign nations. That would help put some of the 10 million unemployed Americans back to work.

The Export-Import Bank is vital to American jobs. It is currently hampered by shortsighted policies and inadequate "lending ceilings". Your bill, S. 2600 is an important step in resolving this problem and we support it.

Sincerely,

Charles E. Nichols
General Treasurer and
Director of Legislation

CEN/pa

HUDSHIP
HUDSON SHIPBUILDERS, INC.

 RIVER EDGE ROAD • P. O. BOX Q
 PASCAGOULA, MS 39567

May 25, 1982

The Honorable H. John Heinz III
 United States Senate
 Washington, D.C. 20510

Dear Senator Heinz:

The limitations imposed on U.S. Export/Import Bank funding are having a serious negative impact on employment. The conditions for Exim loan guarantees and direct loans are unrealistic and unpredictable. The interest rates are so high in comparison to similar foreign government funding as to effectively eliminate U.S. manufacturers as viable competitors in overseas markets.

For example, government guaranteed financing for exports can be arranged through the Singapore government at 8½ percent for 80 percent of the project costs. Japanese exporters can provide government guaranteed loans at 8-3/4 percent for 80 percent of the project costs for 7 years, and at 9 percent for the remaining 20 percent of project cost for a shorter period of time; in effect, 100 percent financing through their government. The Korean government makes similar guarantees.

In comparison, U.S. Exim Bank rates presently are 12-13 percent for guaranteed loans and direct loans respectively plus a one percent loan fee. Financing can be arranged for only 60 percent of the project cost. Limitations on dollar amounts of loans change so frequently as to preclude making a firm commitment to a potential customer.

We at Hudson Shipbuilders, Inc., Pascagoula, Mississippi, have competed in the foreign offshore supply/utility vessel market for the past two years. We are a new industry employing 800 persons. We have never asked for government assistance, and don't intend to. However, we can not be competitive with foreign yards which have a 5 to 6 point advantage in Exim Bank rates as well as government subsidies for manufacturing. Even though we are able to build vessels competitively, we now can not compete in our established markets because of the high costs of exporting through the U.S. Exim Bank and the limitations imposed by the current Exim Bank regulations.

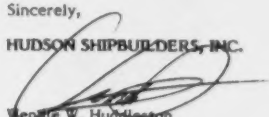
Attachments (1) and (2) are copies of telexes received by us, which explain why we lost a recent bid to foreign competition, and is one example of the problem addressed herein.

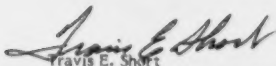
Our industry is operating in a depressed market. High interest rates and the recession in the domestic supply boat market will have a devastating effect on the Gulf Coast shipbuilding industry unless we can compete in the foreign offshore supply boat markets. During the past year, we have lost ten boats to foreign competition due to the differential in Exim Bank rates. This number of vessels represents 50 percent of our total annual manufacturing capability.

The Export/Import Bank regulations and interest rates must be changed now.
We ask for your support.

Sincerely,

HUDSON SHIPBUILDERS, INC.


Wendell W. Huddleston
President


Travis E. Short
Vice President and General Manager

NALCO22962 KT
22070 REZATA1/22962 HALCO KUDAT
19-04-82 MSG.NO. 4420

ATTN TRAVIS SHORT

1. MANY THANKS YOUR ASSISTANCE ON CAMCRAFT SPEEDS.
2. F.Y.I. YOUR PRICES FOR AHTS WERE VERY FAVOURABLE COMPARED TO THE JAPANESE, WHOSE PRICE WAS ALSO VERY DEPENDENT ON EXCHANGE RATES. JAPANESE FINANCE OF 80 PERCENT LOAN AT 8.75 PERCENT OVER 7 YEARS FROM DELIVERY UNON THE DAY IN THE END. ADDITIONAL FINANCE FOR 20 PERCENT BALANCE ALSO AVAILABLE AT 9 PERCENT INCREASING AFTER TWO YEARS.
3. REYR 82-039
WHAT FRENCH EQUIPMENT BEING FITTED?

REGARDS
PETER EVANS

++KP++
Shudship pasc

NALCO22962 KT
REPLY TO THIS TELEX VIA RCA

3hudship pasg

RCA APR 13 07133hudship pasg
K03hudship pasg

REZAYAT22020KT

22020 REZAYAT KT / 22962 NALCO KT
13/04/82 HSG NO.4270

ATTN: TRAVIS SHORT

1. FIRST SET SPECS AND G.A. RECEIVED SAT. 10TH APRIL. SECOND SET PLUS LETTER RECEIVED TODAY TUESDAY.

2. REGRET THAT DESPITE YOUR VERY GOOD PRICE FOR AHIS VESSELS THE PRICE PLUS EXCELLENT FINANCIAL TERMS OFFERED BY THE JAPANESE WON THE DAY.

3. YOUR 120 FT. VESSELS PLUS TWO CAMCRAFT BEING OFFERED TO ARAMCO.

4. WILL FORWARD COPIES ONLY OF KUWAIT FIRE BOAT REQUIREMENT AT THIS STAGE TO GIVE YOU OPPORTUNITY TO EXAMINE THOROUGHLY BEFORE FINAL COMMITMENT.

5. REVERSE OSMOSIS PLANT ONBOARD TEAL PRODUCES LES EACH DAY. FULL SET OF MEMBRANES FILTERS ETC. BEING ORDERED. SODIUM LAUREL SULPHATE FOR CLEANING MEMBRANES NOT YET LOCATED IS THIS KNOWN BY ANY OTHER NAME? HOPE YOUR DISCUSSIONS WITH MANUFACTURER MIGHT PROVIDE SOME ANSWERS.

REGARDS
PETER EVANS

44PG/-
3hudship pasg

REZAYAT22020KT
REPLY TO THIS TELEX VIA RCA

4/13/82 (V)

J.S.

By

M. Cook

G. Bond

C. Cagle

(V)

Colt Industries

Colt Industries Inc.
1901 L Street, N.W.
Suite 303
Washington, D.C. 20036

Franklin P. Decker
202/296-6720

September 28, 1982

The Honorable John Heinz
United States Senate
Chairman, Subcommittee on International Finance
Suite 443 - Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Heinz:

Thank you for your letter of September 13 which was sent to Mr. George Strichman, Chairman of the Board of Colt Industries Inc in New York.

In your letter of September 13 you asked us to comment on S. 2600, amending the Export-Import Bank Act of 1945. Colt Industries is a significant utilizer of the Bank's various programs and has been, and will continue to be, an active supporter of the bank.

We are therefore pleased to make the following comments, for the record, to S. 2600.

Colt Industries Inc supports additional funding for the Bank through establishment of the proposed Competitive Agricultural Commodity and Manufactured Product Export Subsidy Fund, whereby \$2 billion would be made available without fiscal year limitation.

We would, however, like to call your attention to the critical need of competitive rate-making. Sec. 2 (b) (1) (a), of the Export-Import Act of 1945 states that the Bank is to provide credit "...at rates and on terms and other conditions which are competitive with the government supported rates and terms and other conditions available for financing of exports from the principal countries whose exporters compete with U.S. exporters". We recognize and applaud the progress made by the Bank and various other U. S. Government agencies to reach international agreements to get other official export credit agencies to raise their interest rates closer to those prevailing in the commercial marketplace, but there are flaws in that progress.

Specifically, that the Bank is still at least one percentage point higher than its competition, in most of the markets in which most American companies do business, i.e., the developing countries or the so-called category II countries. We would hope that the Bank could match those rates offered by the official national lending agencies of the world so as to neutralize financing factors available to our competition.

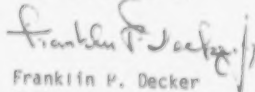
In addition, it is essential that American commercial banks which participate under the guarantee program be fully able to compete with the foreign commercial banks which offer low interest rates and long repayment terms. My company has lost business in third countries to products from competitive countries that provide lower interest.

If this were done, the overseas purchaser would then make a commercial decision based upon price, quality, reliability, delivery and the availability of spare parts and services. American industry can compete on this basis.

Over the years, we have observed that the Bank is reluctant to provide aggressive financing proposals until it has confirmed the existence of competitive financing offers made by its counterparts. Frequently this information is obtained after the business has been lost. We note also that despite the various arrangements, our foreign competition frequently has a more advantageous loan repayment period than we can offer.

I am confident that the Bank has been faithfully observing the letter and spirit of the arrangement. However, until the U. S. Government, through its diplomatic or commercial effort, can effect strict compliance on the part of foreign direct credit agencies, the availability of additional funds to the Bank is academic.

Very truly yours,



Franklin P. Decker
Washington Representative -
International Finance

Cell Industries Inc



EX-100-26 8/22/82

September 20, 1982

The Honorable John Heinz
United States Senate
Washington, D.C. 20510

Dear Senator Heinz:

We note with pleasure your legislation to provide a \$2 billion war chest for EX-IM Bank to combat aggressive export promotion by other nations. In practice, there is a disparity in the interest rates offered by foreign governmental entities which causes the loss of U.S. exports. The availability of favorable foreign financing presents a continuing dilemma to U.S. exporters. Many exporters have solved the problem by using one of the following methods:

- A. Forming a foreign subsidiary in either the U.K. or France.
- B. Licensing their product to either a U.K. or French company.

The above solutions are detrimental to the U.S. economy. We are quite confident that the cost of providing competitive U.S. export financing will yield a favorable return on investment when compared to the loss of employment and tax revenue.

From a company perspective, it is increasingly difficult, if not impossible, to export U.S. products that are not purchased for cash. A common example is as follows:

Country:	Brazil
Customer:	Petrobras
Value of Contract:	\$2,000,000
Technical Evaluation of SOFEC:	First
Price Evaluation of SOFEC's Offer:	First
Number of Competitors:	Five
Financing Evaluation of SOFEC's Offer:	Last
SOFEC's Financing:	LIBOR + 2 + 3/4 Fee
French (EMH) Financing:	B-1/4% interest for 10 years with 2 years grace period
Contract Awarded To:	EMH
Reason Contract Awarded to EMH:	Financing Terms

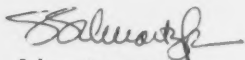
The lack of competitive U.S. financing caused the Panamanian Pipeline Crossing Project, valued at \$12,000,000.00, to be awarded to a French company.

Our product is second to none, as demonstrated by being chosen to design, manufacture and supply the unloading terminals for the first deep water port in the United States, The Louisiana Offshore Oil Port (LOOP). A copy of our company brochure is enclosed.

Please look to our company for support. We have also enclosed our brochure "International Market Conditions Require Competitive U.S. Export Financing." If you think it would be helpful, we would be pleased to meet with you during our next trip to Washington.

Regards,

SOFEC, Inc.



Sylvan Schwartz, Jr.

SS:nw
enc.

2000 WEST LOOP SOUTH • SUITE 990 • HOUSTON, TEXAS 77027 • TEL. (713) 877-2777 • TWX-910 • 681 • 5026 • TELEX-77-4588



INTERNATIONAL MARKET CONDITIONS

REQUIRE COMPETITIVE U.S. EXPORT FINANCING

INTRODUCTION

SOFEC, Inc. provides complete design, engineering and construction on a turnkey basis for a full range of marine terminals.

We are one of the primary suppliers of Single Point Mooring (SPM) terminals for liquid product import or export and for offshore floating crude oil production, storage and process.

We have expanded our SPM technology to include specialty buoys for application in ship berthing and maneuvering in difficult or congested areas, offshore supply vessel mooring and conventional multiple buoy terminals.

Our expertise in analyzing operating conditions and determining design forces for our SPM terminals, together with our experience in structural and foundation design, provide a sound background for competent design of all our marine terminal systems.

SOFEC, Inc. (Specialized Offshore Facilities and Engineered Components) is a private firm incorporated in the State of Texas on May 30, 1972.

SOFEC is actively engaged in engineering studies involving marine terminals and SOFEC is directly involved in the maintenance and operation of marine terminals of the SPM type.

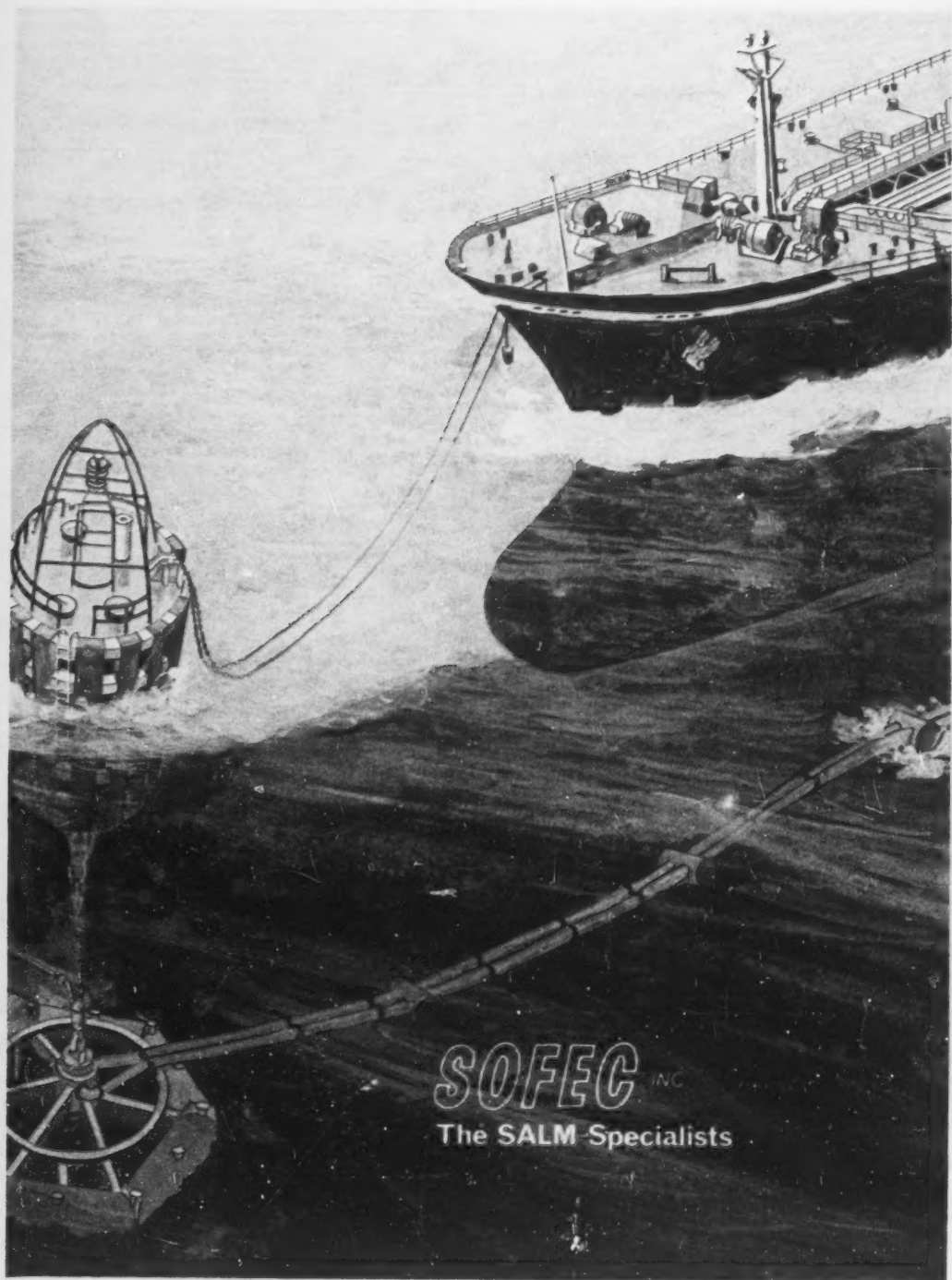
SOFEC is 80 percent owned by Texas United Corporation who engages in the production, transportation and sale of salt, concentrated salt brine and calcium chloride, pipeline operations, workover and completion fluids and liquid gas storage and handling through its affiliates, United Salt Corporation, Texas Brine Company, Texas Brine Chemicals and United Brine Pipeline Company.

The principal bank of SOFEC is First International Bank, 1801 Main, P.O. Box 3555, Houston, Texas 77001. Some international accounts are also conducted through Texas Commerce Bank, P. O. Box 2558, Houston, Texas 77001.

SOFEC, Inc. is a licensee of the SALM SPM technology through Exxon Research and Engineering (ERE), Florham Park, New Jersey and hold our own patents on our CALM components, swivels and other related mooring systems.

SOFEC's engineers were instrumental in the development of the SALM for ERE in the mid 1950's and designed and built the first two SALMs for Exxon prior to the license agreement in 1972. Development of SOFEC's CALM design has been on-going for several years and SOFEC engineers have been involved in the design of CALM systems for the U.S. Army Corps of Engineers.

SOFEC has designed and constructed a very large majority of the SALM Terminals in the world since commercial licensing.



SOFEC INC.
The SALM Specialists

**SOFEC**

INC

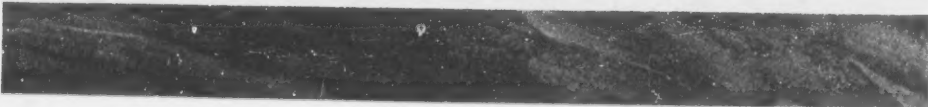
the company with innovative engineering

SOFEC, INC. was established to design, engineer, manufacture and install the Single Anchor Leg Mooring (SALM) System for single point mooring applications. The SOFEC engineering and management team has been involved in the SALM development design, fabrication and installation activities since the inception of the concept. In fact, the SOFEC project team has designed, fabricated and installed the majority of the SALM terminals in service throughout the world today.

SOFEC, Inc. offers worldwide engineering and project management expertise for the following:

- Contract SALM design, manufacture and installation
- Feasibility and cost analysis studies
- Project proposals — studies, designs
- Analytical studies and model tests
- Project management: Engineering and Design
 - Scheduling
 - Procurement
 - Inspection
 - Fabrication
 - Installation

SOFEC's dedication to its continuing Research and Development efforts is exemplified by the fact that the company has been granted numerous patents for improvements to the original SALM concept.



The Single Anchor Leg Mooring (SALM) System

BRIEF HISTORY

The Single Anchor Leg Mooring System concept was originated by a major oil company in the mid-1960's. During the ensuing developmental period, over 1,000 model tests have been conducted in irregular seas with tankers as large as 500,000 DWT and in water depths to 590 feet. Following the conceptual phase, SOFEC, Inc. was selected as a licensee and has designed SALM terminals for water depths to 530 feet, operating seas to 39 feet, survival seas to 96 feet and tanker sizes to 750,000 DWT. Since the first SALM installation in 1969, maintenance on fluid swivels, universal joints and other mechanical parts has been non-existent, and hose replacement requirements have been minimal.

BASIC DESIGN CRITERIA

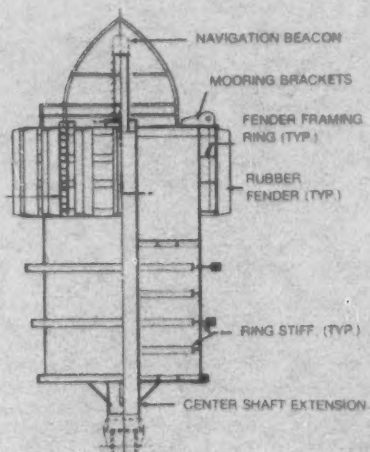
General

The basic concept of Single Point Mooring (SPM) system design is to provide a mooring which is sufficiently elastic to minimize hawser loads, yet adequately stiff to control tanker motions.

The inverted hinged "pendulum" of the Single Anchor Leg Mooring (SALM) represents a large "spring" whose elastic characteristics may be matched with the specified tanker size and environmental conditions to absorb the motions of the moored vessel at a rate which minimizes the resulting forces. The variables which determine the SALM's "stiffness" are all controlled during design and manufacturing stages, not during the installation of the system as in the case of a Catenary Anchor Leg Mooring (CALM) system whose performance is sensitive to anchor placement and anchor leg tension.

The SALM is a heave free system whose long slender spar-type buoy is designed to maintain a constant upward force on the anchor leg.

A primary feature of the SALM design is that the fluid swivel is not attached to the buoy. Thus, the underwater and floating hoses are separated from the buoy and are not subjected to forces induced by buoy motions. Additionally, the separation of fluid swivel and buoy allows the fluid carrying components to be placed at a submerged level safely below the draft of the design tanker.



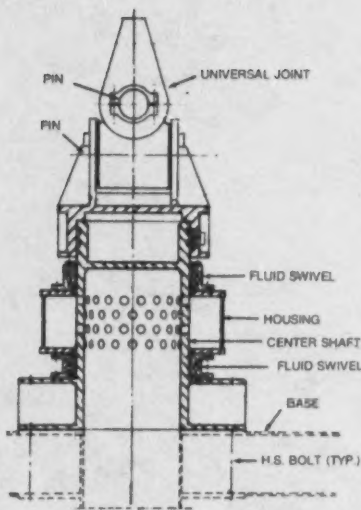
SALM BUOY

SALM BUOY

The SALM buoy is concerned only with mooring of the vessel and not with cargo transfer. Therefore, the fluid swivel and hose arm are not mounted on the buoy, but rather submerged below the draft of the maximum design tanker. Removal of these critical components from the buoy virtually eliminates the possibility of damage to these components, the buoy or to the vessel itself should the tanker ride up onto the mooring.

HOSE SYSTEM

The SALM Hose System is not subjected to the substantial energy inputs associated with systems where the hose is connected to a floating buoy. Rather, the SALM Floating Hose is free to follow the motions of the sea and is connected to the Fluid Swivel through a length of submerged hose which serves as an ideal flexible transition from the surface wave zone to a depth where the wave action is substantially reduced. The hose string is connected to the fluid swivel through a hinged counter-balanced hose arm, a SOFEC exclusive, which accommodates slight vertical movements of the hose and transmits turning forces from the hose to the swivel assembly.



FLUID SWIVEL WITH UNIVERSAL JOINT

MOORING BASE

The SOFEC Mooring Base can be either pile anchored or gravity anchored, dependent on soil conditions. The pile anchored base is a compartmentalized steel structure designed to be floated (or barged) onto location then sunk, ballasted with cement grout, and fixed to the seafloor with pilings.

The gravity-type mooring base consists of a large circular, welded steel tank which is open at the top. Inside are cylindrical pressure vessels arranged radially around a central strength column. These vessels provide adequate buoyancy to float the structure to the installation site. Valves permit controlled flooding for lowering the base while minimizing hook load requirements. Once the base is properly oriented on bottom, all vessels are flooded and the structure is filled with gravel and quarry stone for stability. Scour protection is provided by a patented, hinged, steel skirt which is deployed after the base is in position.

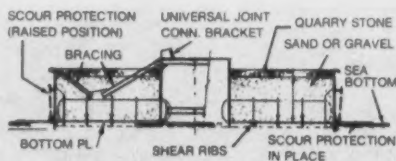
SINGLE ANCHOR LEG

The single anchor leg of the SALM buoy consists of a short length of 6-inch diameter anchor chain, mounted between two universal joints which eliminates wear due to buoy oscillation. It is equipped with an anchor chain swivel which permits full 360° rotation of the buoy and thus allows the moored vessel to weather-vane freely without imposing torque loads on the anchor leg chain.

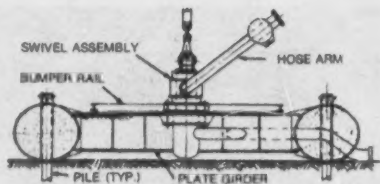
FLUID SWIVELS

SOFEC Fluid Swivels are precision mechanisms specifically designed for long term service under submerged conditions without the need for periodic maintenance. The Swivel Assembly utilizes multiple seals internally and externally and is life-lubricated with a high viscosity lubricant during manufacture. For multiple product applications, the SOFEC Swivel is designed with structurally segregated compartments which positively prevents commingling of the fluids.

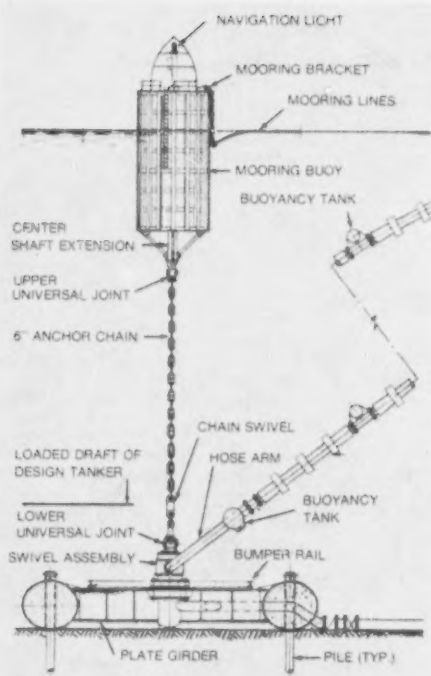
SOFEC-SALM Swivels have historically provided excellent service and have required very little maintenance. Swivels have been in service since 1969.



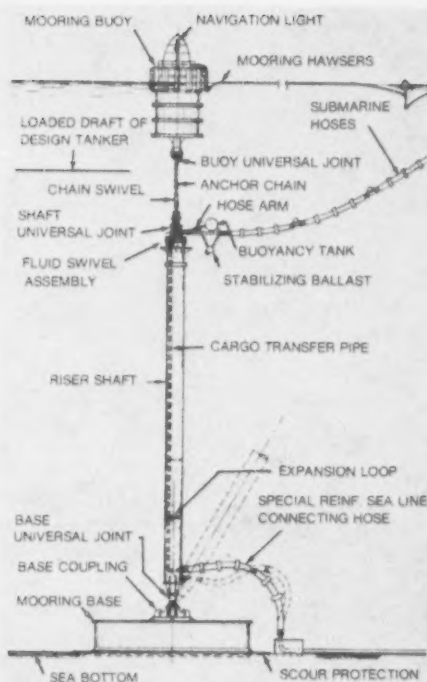
GRAVITY BASE



PILE ANCHOR BASE



SHALLOW SALM DESIGN



DEEP SALM DESIGN

TWO TYPES OF SOFEC SALMS

SOFEC SALM terminals are classified as either "shallow water" designs, for water depths of approximately 140 feet or less, or "deep water" for water depths exceeding 140 feet. The basic difference between the two designs is in the construction of the anchor leg.

In the shallow water SALM system, the fluid swivel is mounted directly on the mooring base. The anchor leg which transmits the mooring loads from the buoy into the mooring base consists of a length of stud-link anchor chain connected between two universal joints; one atop the fluid swivel and one mounted directly below the buoy on the center shaft extension. The anchor chain contains a specially designed chain swivel to allow free rotation of the buoy.

In the deep water SALM system, the fluid swivel is elevated above the mooring base by means of a load carrying riser shaft. This allows the fluid swivel to be positioned at a point well below the draft of the maximum design tanker (usual design has the fluid swivel about 100'-110' below the surface) while minimizing the length of the hose between the fluid swivel and the surface. Cargo transfer piping is con-

tained within the riser shaft; consequently, hard piping carries the cargo from the base to the fluid swivel. The riser shaft is articulated through a universal joint between it and the mooring base.

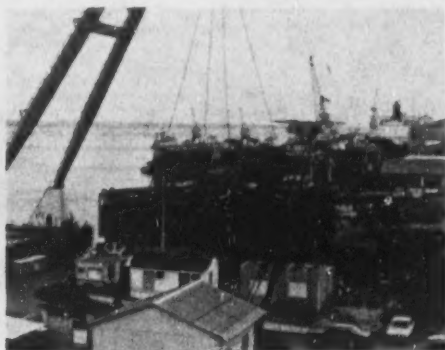
Attachment of the Base Universal Joint to the Mooring Base is accomplished hydraulically, thereby allowing the riser to be attached after the Base is in position on the seafloor. The connection between the pipeline end manifold (PLEM) and the riser shaft is accomplished with a single, short length of specially reinforced base hose between the PLEM and the lower end of the SALM riser. The connection between the upper (fluid swivel) end of the riser and the buoy is made through two universal joints and a chain swivel. Dependent upon the length of the buoy, a short length of anchor chain may or may not be required.

There are many variables which affect the overall design of either the shallow or deep water system, but suffice it to say that the SOFEC SALM is adaptable anywhere an SPM terminal is desired, in water depths from 50 to excess of 600 feet.

Unique Construction and Installation Technique EMPLOYED TO SET SALM IN 296 FEET OF OPEN SE.



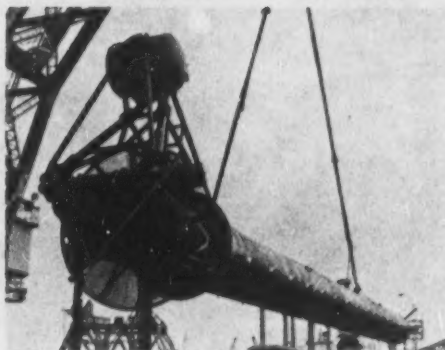
SALM mooring base nearing final fabrication. Note scour protection skirt partially hinged against base for transportation and partly in deployed position.



The SALM 80-ft. diameter gravity base during load-out for transport to location.



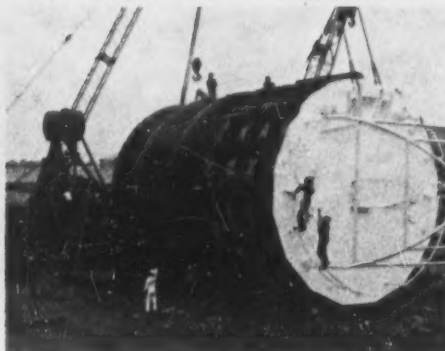
SALM mooring base loaded onto transportation and launch barge ready for transport to location.



The 186-ft. long, 8-1/2 ft. diameter riser shaft with fluid valve assembly in place.



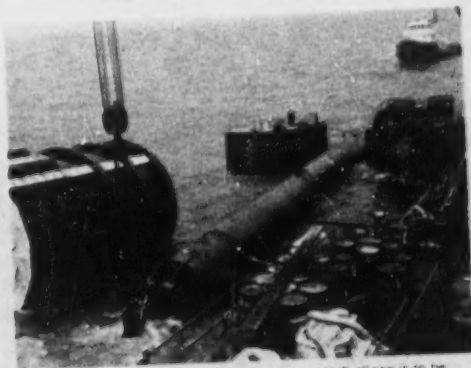
Workmen put finishing touches on the universal joint. Note the chain swivel and 6-inch diameter anchor chain.



The SALM buoy undergoing loading operations. Note its relative size to workmen and equipment nearby.



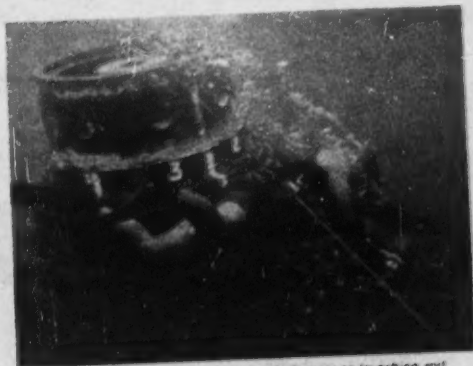
The SALM mooring buoy and riser shaft loaded aboard the transport barge, en route to the mooring site.



The riser shaft has integral buoyancy which allows it to be launched directly into the sea at the installation site.



Only the top portion of the 160-ft. long riser shaft is visible as it is being lowered into position onto the mooring base already in place on the sea floor.



Underwater inspection of riser shaft prior to launching and attachment of mooring buoy.



SALM mooring buoy, launched and ready for hook-up positioning.



Mooring base installed and undergoing final hook-up of mooring lines, navigational aids, etc.

SOFEC PROJECTS

Owner	Location	Year	Water Depth	Tanker	Hose System	Comments	1982 Contract Value (000 Omitted)
EXXON	Tembungo	1974	300'	94 MDWT	1-10"	Storage Terminal	\$ 8,000
ARAMCO	Ju'Aymah	1976	135'	750 MDWT	2-24"+ 1-12"	Export Terminal	6,000
ARAMCO	Ju'Aymah	1976	117'	750 MDWT	2-24" 1-12"	Export Terminal	6,000
AGRI-PETCO	Ghana	1978	79'	64 MDWT	1-10"	Storage Terminal	4,000
CAMPSA	Badalona	1979	107'	50 MDWT	2-12"	Fuel Oil Import Terminal	4,000
LOOP	Louisiana	1980	110'	700 MDWT	2-24"	Import Terminal	16,000
LOOP	Louisiana	1980	112'	700 MDWT	2-24"	Import Terminal	
LOOP	Louisiana	1980	114'	700 MDWT	2-24"	Import Terminal	
Bataan Ref. Corp.	Philippines	1980	94'	300 MDWT	2-24"	Import Terminal	6,000
Japanese National Oil	Japan	1983	145'	350 MDWT	2-24"	Import Terminal	5,000
LETJES	Indonesia	1981	60'	10 MDWT	2-8"	Import Terminal	1,000
PEMEX	Mexico	1981	150'	2000 DWT		Supply Boat Bow Mooring*	2,000
PETRONAS	Malaysia	1982	60'	85 MDWT	2-20"	Import/ Export Terminal	3,000
DDSC	Denmark	1982	50'	35 MDWT	2-20"	Products Import	3,000
*21 complete systems							\$64,000

TANKER LOADS OFF JU' AYMAM The two SALM terminals are designed to handle 750,000-dwt tankers—none of which have yet been built.

SOFEC constructs the largest

SPM terminals in the Arabian Gulf

Robert H. Gray, Vice President, SOFEC, Houston, Texas

The largest export SPMs in the world, two SALM (Single Anchor Leg Mooring) terminals, have recently been completed by SOFEC Inc., of Houston in 125 ft of water in the Arabian Gulf. The two terminals are part of the latest expansion of the offshore loading capabilities at Ras al Ju' Aymah, Saudi Arabia.

Design capabilities. Each SALM is designed to moor and load tankers up to 750,000 dwt* in seas up to 15 ft (significant wave height), winds up to 50 mph and currents of three ft/second.

The basic design philosophy for a SALM terminal is to provide a mooring system having sufficient elasticity to minimize mooring forces while retaining adequate stiffness to control tanker excursions. Mooring forces are predicted via an empirical method developed through several years of model testing and prototype design, installation and operation.

For the Ju' Aymah Project, two separate series of model tests were carried out at the Netherlands Ship Model Basin. The purpose of the first series was to assess the performance of the SALM system in general, select an optimum hose system design and to verify mooring forces. The second series was conducted to study on a large scale the performance of the SALM hose system in waves and currents. Nine different hose systems were tested to determine the optimum system with respect to profile, length and flexural rigidity. Models were constructed for these tests at scales of 1:53, 1:36 and 1:20.

Swivel assembly. The heart of the SALM system is the fluid swivel assembly. Because this unit must be located underwater, SOFEC designed it for long life and maintenance-free operation. Actual field histories indicate that periodic lubrication is not necessary and seal replacements are infrequently required—on the order of seven or more years.

Thus, the underwater location provides a positive advantage as the swivel is removed from the harsh surface environment to a quiet zone near the sea floor well below tanker drift and safe from damage by collision should the tanker override the buoy. Additionally, the underwater swivel allows separation of the mooring function and the cargo transfer function i.e., the SALM buoy is strictly a mooring device and is not involved in cargo transfer. No hoses are attached to it. Thus, the hose system is not subjected to forces (and potential damage) caused by motions of the buoy.

The Ju' Aymah SALM fluid swivels are designed for simultaneous transfer of two fluids: crude oil and bunker fuel oil. Design flow rates are 210,000 and 20,000 barrels per hour, respectively. Present operations which utilize twin 24-in. hose strings with 16-in. tail hoses for

crude oil and a single 12-in. for bunker fuel limit transfer rates to about 110,000 barrels per hour for crude oil and 5,000 barrels per hour for bunker fuel oil.

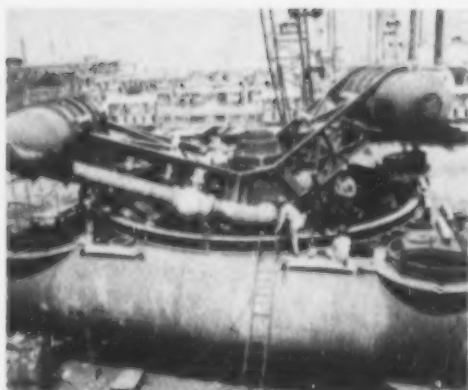
The fluid swivels for the Ju' Aymah Project incorporate several unique features which insure their operational viability.

1. It is impossible to commingle the crude and bunker fuel oil. The two products are segregated via structural separation i.e., no elastomer or other type seals are utilized.
2. The swivel assemblies are completely modular and all pressure sealing connections may be readily brought to the surface either as a unit or individually.
3. Each of the rotary swivels which mount the fluid distribution chambers incorporate 5 large volume seals: 3 on the oil side and 2 on the side exposed to seawater. The primary seal on the oil side is a multiple contact, self-energized seal and the secondary seal is a large, pressure-energized type. Additionally, there is an emergency seal which is normally in a passive or retracted position. It can be energized and set with externally applied hydraulic pressure. Once set, this seal will allow the swivel to continue to operate as usual until maintenance can be scheduled. This prevents panic shut-downs of the system.
4. Swivel torque requirements were reduced significantly through research and development efforts. Low torque means longer

BUOYS UNDER CONSTRUCTION. The buoys are used strictly for mooring; the hose system is separate.



*750,000 dwt tankers have not been constructed to date. Typical dimensions for a vessel of this size are: length = 1,600 ft, beam = 200 ft, draft = 100 ft. The largest tankers in the world at this time are about 850,000 dwt.



BASES UNDER CONSTRUCTION AT BAHRAIN. Once on the sea floor, the 9-ft diameter sections of the 45-ft square base are lifted with cement and pinned to the floor with piling. One of the unusual features of the installation are the hose arms, which usually stabilize at 20 to 30° during loading. After vertical excursions due to waves, the arms return to the original configuration.

bearing and seal life and longer life for the submarine hoses. Torque reduction was achieved without reducing bearing or seal contact areas through the use of a special low friction overlay material on the sealing surfaces in combination with mechanical modifications to avoid torque build-up due to bearing misalignment.

The SALM design utilizes the loading hose to transmit torque to rotate the fluid swivel. The connection between the hose system and the swivel is achieved through a hose arm which provides a flexible transition point for the attachment of the submarine hoses and also constitutes an important part of the over-all moment arm available to rotate the fluid swivel.

Another important feature of the Ju' Aymah SALM hose arms is the self-stabilizing capability. With this feature, the hose arm is stabilized at a predetermined angle with the horizontal, typically 20° to 30°. When it is upset by external forces and moves either upward or downward, the self-stabilizing effect takes place and a positive righting moment is exerted which tends to return the arm to its equilibrium position. This function was clearly demonstrated during the Ju' Aymah model tests which also demonstrated the stability of the overall hose configuration. Once the correct buoyancy has been added, the submarine hose configuration is stable and will, after deformation due to external forces, resume its static configuration again when the external forces are removed.

The model also demonstrated that heeling angles i.e., changes in vertical orientation, of the hose arm under all current conditions tested (5 to 1.75 knots) are moderate as are the motions under the influence of waves.

One other important design parameter that was verified during model testing was the ability of the fluid swivel/hose arm/loading hose system to rotate under the influence of nominal surface currents. It was found that the optimum hose system would rotate the fluid swivel with current velocities of 0.3 to 0.5 knots at directions of 90° and 180° to the hose arm. Proper attention to this important parameter during the design phase insures that the loading hoses will not wrap around the buoy should the terminal remain unoccupied during a tide change or other shifts in weather directions.

Mooring buoys

The Ju' Aymah SALM mooring buoys are each cylindrical structures 20 ft in diameter by 40 ft deep providing a fully submerged net buoyancy of 250 tons. This net buoyancy is a key design factor for the SALM. Selected net buoyancy was determined by engineering study as that which provided the optimum resistance for adequate control over the motions of the maximum design tanker in the maximum design environment at an acceptable bow hawser load.

The buoy is anchored to the mooring base by a single anchor leg which consists of 20 links of 6-in. oil rig quality stud-link chain. Integral with this chain are two universal joints at either end and a rotary chain

swivel at one end. The heavy chain, constantly in tension and isolated between the two universal joints, behaves essentially as a solid link. The universal joints accommodate angular motions and the chain swivel allows rotational motion. Thus, relative motion between the links is avoided and chain wear is nil.

Mooring base

The sea floor foundation or mooring base is a hollow square measuring 45-ft O.D. and 27-ft I.D. Each leg of the square is a 9-ft diameter, internally stiffened cylinder. Bulkheads at each corner separate the base into four watertight compartments so the entire structure is self-floating. During installation, two of the compartments are designed to be flooded for submergence while the other two remain dry. This reduces hook loads during the lowering of the base from the surface to the sea floor.

Once on the sea floor the legs are flooded and then filled with cement ballast. This prevents the pile system from being constantly in tension. The in-place weight of SALM base plus piles plus ballast offsets the uplift forces imposed during nominal operating conditions. Each Ju' Aymah SALM mooring base has an in-place weight of about 600 tons.

Fabrication of the mooring bases and buoys took place in the Arabian Gulf on the island of Bahrain. Fluid swivels and universal joints came from the U.S.; the hose arms were fabricated in Singapore and plings were fabricated in Japan.

Installation

Installation of the Ju' Aymah SALM terminals took place during summer, 1976. Prime contractor for SALM installations was Brown & Root—Wimpey (U.S.A.).

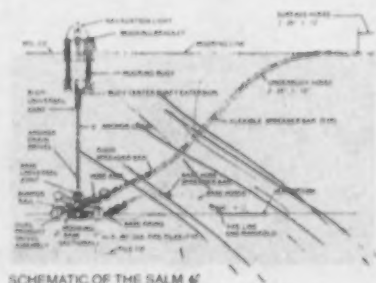
The mooring base assemblies were transported from Bahrain to Ju' Aymah—a distance of about 60 miles—where they were lifted off the barge and set by a 500-ton stiff leg crane. The maximum lift required was 325 tons. The bases were lowered into four-ft deep recesses which had been air-lifted from the sea floor prior to their arrival.

Once the bases and plings were installed, the buoys were attached via single connections as shown in the accompanying drawing.

The Ju' Aymah SALM terminals were commissioned in late November, 1976. Since start-up, several important items have been confirmed:

1. The self-stabilizing hose arm functions as predicted by the model tests. It absorbs the highly damped motions of the hose string through small vertical excursions then returns to its stabilized design position.
2. Submarine hose profile is very stable and requires no maintenance or adjustment once set.
3. The fluid swivel rotates readily under the influence of torque produced by currents acting on the hoses.

Since the Ju' Aymah SALMs have been in operation, they have been continually occupied by VLCC's of the world fleet. During the first three months operation, approximately 100 million barrels of oil were transferred through the terminals. Thus far their performance capabilities and minimum maintenance attributes have lived up to all design expectations.





Float System Helps Develop Marginal Field

by R. H. Gray, Vice President and W. L. Kiely,
Executive Vice President, SOFEC, Inc., Houston, Tex.

Developing a small (6-9 million bbl) oilfield off the coast of Ghana, West Africa, by Agri-Petco of Ghana, Inc., was feasible with use of the Floating Offshore Attended Terminal (FLOAT) concept. Six wells have been drilled, all expected to produce about 1000 bbl each.

A Single Point Mooring (SPM) terminal provides a permanent mooring for a storage tanker. The storage tanker is offloaded periodically into a shuttle tanker which moors alongside. The FLOAT System thus replaces the requirement for a pipeline and shore terminal and, in this case, helped reduce cost, accelerate production start-up and allow a reasonable return on the project.

Primary advantage of the SPM terminal approach in this application is its ability to allow continuing production operations in rough weather. Since the tanker is moored by its bowlines only, it can swing freely about the mooring (weather vane) and stay bow-on to the prevailing weather. This diminishes response motions of the tanker, reducing forces imposed on the mooring system, and the storage vessel remains securely on the mooring without interruptions in production.

The SPM selected for this project is the Single Anchor Leg Mooring (SALM) design (Fig. 1). The SALM is characterized primarily by its single, constantly tensioned anchor leg and by the complete segregation of the mooring and cargo-loading functions (i.e., the loading hoses are not attached to the buoy; the buoy is a mooring device only).

Other features of the shallow water SALM are (1) the fluid swivel near the seafloor well below the keel of the maximum design tanker and (2) the compact seafloor foundation to which the fluid swivel is attached. The SALM design as a permanent mooring system offers several advantages over the traditional Catenary Anchor Leg Mooring (CALM), particularly in the areas of safety and maintenance.

The SALM is largely invulnerable to damage by tanker collision because critical components are below the tanker's keel. Also, since the SALM has no routinely

extending anchor chains, the tanker can approach and "kiss" the buoy without fouling the mooring.

The features are advantageous in the case of a permanent mooring as the tanker will tend to "ride up" on the buoy during certain instances of slack weather and tide changes. With no radial chains, the SALM presents a minimal obstacle to the "shuttle" tanker during offloading operations.

With respect to maintenance, a primary "consumable" with SPM's is the loading hose system. The SALM design reduces hose failures because it uncouples the hose system from the buoy thus eliminating forces that would otherwise be transferred into the hoses through buoy motions.

Other maintenance items usually associated with CALM-type SPM's are anchor-chain retensioning and periodic turntable lubrication. The SALM never requires chain retensioning, there is no turntable and the fluid swivel is a sealed unit that does not require periodic lubrication.

The SALM for this particular job was designed to provide a safe and reliable mooring station for the permanent storage vessel under the following conditions:

Design criteria: Water depth - 79 ft to 86 ft; Tanker Size - 64,000 dwt; significant wave height (design) - 10 ft; wind velocity (design) - 20 mph; current velocity (design) - 1.4 kt; maximum wave height w/tanker moored - 25 ft; maximum wind velocity - 40 mph; maximum current velocity - 2 kt (perpendicular to waves).

The design conditions contain small probabilities of exceedance; 10 ft significant wave will be exceeded 3% of time, 30 mph wind will be exceeded 2.5% of time and 1.4 kt current will be exceeded 1% of time. The maximum conditions are not expected to be exceeded for a 20-year recurring storm.

Design parameters: Bow hawser force (design) - 180 short tons; anchor leg force - 182 short tons; anchor leg deflection (angle w/vertical) - 36 deg; ultimate hawser force - 242 short tons; ultimate anchor leg force - 264 short tons; ultimate anchor leg deflection - 43 deg.

Design procedure: The primary design philosophy for an SPM terminal is to provide a mooring having sufficient elasticity to minimize mooring forces while retaining adequate stiffness to control the motions of the tanker. The overall SALM elasticity is the elasticity of hawser acting in series with the force—deflection characteristics of the buoy-anchor leg system.

The characteristic elasticity curve for the SALM described here is shown in Fig. 2. Static relationships between buoy net buoyancy, hawser force and anchor leg force for the shallow water SALM may be perceived by the following equations (see Fig. 3):

$$PL = \left[\frac{FB}{\tan \alpha \tan \beta} \right] / \cos \beta$$

$$FC = PL \left[\frac{\cos \beta}{\sin \gamma} \right]$$

PL—Bow hawser force

FB—Buoy net submerged buoyancy

β —Angle of hawser w/horizontal

α —Angle of anchor leg w/horizontal

$\gamma = 90^\circ - \alpha$

FC—Anchor leg force

Design bow hawser force was determined by an empirical technique developed through continuing model-testing programs conducted over the past 10 years. This method was developed by Exxon Research & En-

gineering and Exxon Production Research Co. and has been discussed by Mory & Poranski¹ and Maddox².

Basically, the technique allows determination of the required SPM system energy capacity as a function of tanker size and environmental conditions. This is possible because a consistent relationship has been shown by the model tests to exist between the area under the system elasticity curve up to the significant bow hawser force (the system energy) and the tanker displacement and significant wave height.

Thus, the designer assumes several buoy-hawser systems, plots their characteristic curves and determines which of these assumed systems develops the required energy capacity at the minimum significant bow hawser force level while restraining the tanker within acceptable excursion limits.

Winds and parallel currents are treated as static elements whose effects are directly superimposed onto the wave dynamic effects. While this process implies linearity which is obviously not the actual case, experience has shown that a sufficiently accurate solution may be obtained. Many designers use OCIMF³ equations for calculating wind and current forces:

Wind force = $[1.28 (10^{-4}) V^2 A_x] C_w$

Current force = $[1.41 (10^{-5}) V^2 (\text{draft} \times L_{pp})] C_x$

Force in short tons

v - Wind velocity in mph

A_x - Tanker transverse wind area including superstructure in sq ft

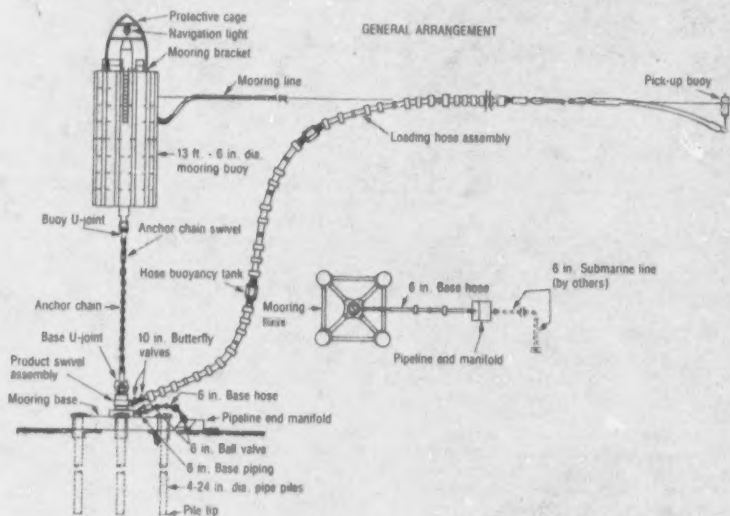


Fig. 1. General arrangement.

Cw - Bow wind force coefficient (varies from .86 for ballasted vessel to .96 for loaded vessel)

V - Current velocity in knots

Lpp - Vessel length between perpendiculars in ft

Draft in ft

Cx - Bow-on longitudinal current force

Coefficient (approx 0.1; varies somewhat with water depth/draft ratio)

Cross currents (i.e., current perpendicular to wave) in this particular instance, are treated as wave energy modifiers which may increase the effects of a given wave by causing a re-orientation of the tanker so that it assumes a quartering (rather than head-on) exposure to oncoming waves.

Their effect may be calculated by an empirical power function which was developed through the model test program or by using OCIMF data and calculating the equilibrium position of the tanker.

The design bow hawser load must be established through the application of probability data which considers a reasonable duration for the mooring system and design tanker to be exposed to the maximum design environment.

This is a judgment decision as is the selection of a realistic probability of exceedance. The designer must consider statistical environmental data together with the operational plan for the mooring system.

On the basis of the selected duration for the maximum environment and the chance of exceedance, the ratio of the maximum to significant load may be determined. This ratio, typically ranging from 1.7 - 2.5 multiplied by the significant bow hawser force yields the design force. From this force the bow hawser system is selected.

Current practice for twin-line systems recommends a design factor of 1.25 to 1.5 times design bow hawser force applied to each line and 1.67 to 2.0 on single lines or grommet-type (strop) hawsers. Once the bow hawser system is selected the ultimate loads may be determined.

SOPEC's structural design philosophy recognizes two conditions:

1. The first design condition is the hawser force and the resulting system reactions which occur when the mooring is operating with the tanker in its most critical loading condition during the selected design environment.

For a permanent mooring such as this particular application, the selected design environment is one for which there is only a very small chance of exceedance.

The selection of the design environment and of the storm duration and chance of exceedance that determines the ratio of maximum/significant load is different for a permanently occupied SPM than for an "on and off" import/export type facility.

In the latter case, the design environment may be substantially lower than the maximum predicted environment and the acceptable chance of exceedance will be somewhat larger.

Based on predicted design forces, SOPEC uses design factors on foundation and structural components of

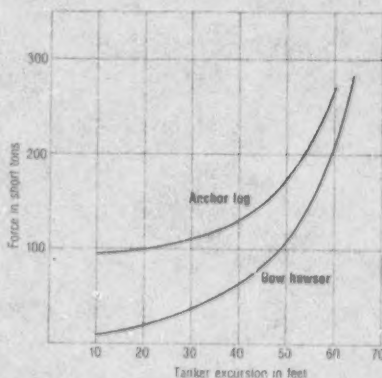


Fig. 2. Elasticity curve for SALM.

at least 2:1 and on anchor chain and chain swivel factors of 4:1 are applied.

2. Second is the ultimate load condition or the force required to break the hawser assembly. SOPEC applies design factors of 1.2:1 (typical) on foundation and structural components and 2:1 on anchor chain and chain swivel.

In addition to requirements dictated by the foregoing design procedures, system design must consider fabrication, transportation and installation capabilities available to complete the job. The flexibility of the SALM allows sizing of the various modular components to be compatible with lifting, transportation and installation restrictions.

Flexibility proved particularly advantageous in this case since, in order to satisfy production requirements and economics, the SALM needed to be designed and built in a minimum time frame and installed at a remote location with available construction equipment.

These requirements dictated a design which could be built at an industrialized location and transported economically to location as well as one which optimized the mooring base/piling and mooring buoy design.

Final mooring base design took into consideration the soils conditions at location (cemented sand), locally available installation capabilities (30-in. maximum diameter drilled hole) and the design loads. Additionally, criteria were placed on the design to allow the mooring base/fluid swivel assembly to be transported aboard commercial freighter and unloaded by ship's tackle onto a locally available workboat thus minimizing transportation costs.

The resultant four-pile open frame design is efficient, compact and light-weight. This design uses four each, 24-in. diam x 64-ft long piles, which are grouted into 30-in. diam holes in the seafloor. The mooring base can

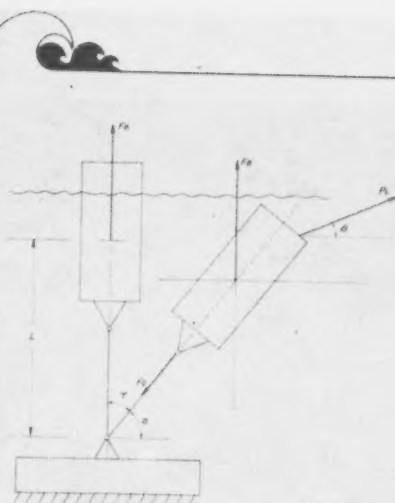


Fig. 3.

be set on location and all anchor piles secured without relocating the barge, which is necessary if installing a CALM-type mooring system.

The fluid swivel assembly permits 360-deg rotation of the loading hoses, bolts to the mooring base with 16 high strength bolts each, allowing for modular construction and field assembly. This provides an efficient means for removal when the field is depleted at a future date.

The SALM buoy is designed as a ring stiffened pressure vessel loaded by external hydrostatic pressure plus the mooring forces. It is divided into four watertight compartments by horizontal decks and is protected over its entire length with elastomeric fenders.

For this terminal it was possible to build the buoy inland, transport it by truck to port and ship it on a commercial freighter having the proper tackle to load and unload the buoy. At the delivery point the buoy was set onto the deck of a supply ship but could as easily have been placed directly into the water and towed to location.

Attachment of the mooring buoy to the base is a straight-forward operation requiring minimal support equipment. With the anchor chain and anchor swivel attached, the buoy's lower compartments are filled with water causing the buoy to rotate to an upright position and settle several feet below its design draft.

Anchor chain is swung into position over the base universal joint and connected utilizing a hydraulic connector. Ballast water is then pumped from the buoy causing the slack to be removed from the chain and the buoy to achieve the proper pretension.

The SALM is connected to the production platform by a 6-in. pipeline laid on the seafloor. The platform is a jackup drilling rig which was used to drill the wells and subsequently converted by placing pre-fabricated modular production units on the rig.

In operation, oil flows from the wells through these

production facilities then directly to the 64,000-dwt storage tanker. The tanker is permanently moored to the SALM with a single 15-in. nylon mooring hawser.

Connection of the hawser to the tanker is via an oversized (to reduce the effect of chafing wear) chafing chain which attaches to a Smit Bracket at the tanker's bow. An oversized bow chock was installed on the vessel (again to reduce the effects of chafing wear) and a second Smit bracket was installed to facilitate change-out of the mooring hawser.

Oil flows to the storage tanker through a 10-in. hose coming from the fluid swivel to the surface then necking down to a 6-in. floating hose connected to a piping manifold near the bow. The manifold was constructed looking down over the side of the storage tanker.

The hose-to-manifold connection is made via a flexible ball-joint designed to reduce hose fatigue. When the storage tanker is loaded, oil is sold to transit vessels which moor alongside the storage tanker using a cylindrical fendering system. Mooring and oil transfer activities are conducted approximately every one and one-half months and require about one day to complete.

When field production declines to the economic limit, virtually all capital equipment will be salvaged for reuse.

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Seven Years' Experience With the First Deepwater SALM

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Summary

This paper describes the performance of the Tembungo single anchor leg mooring (SALM) tanker loading terminal during its first 7 years of operation. This facility, located in 300 ft (91 m) of water, 50 miles (93 km) offshore Sabah, East Malaysia, has been in continuous service since Oct. 1974. It was designed to moor a 94,000-dead-weight-ton (DWT) (85 000-Mg) storage tanker permanently in maximum wave heights of 39 ft (12 m), winds of 65 mile/hr (29 m/s), and 2-knot (1-m/s) currents.

The Tembungo SALM has performed very effectively since start-up. Operational efficiency rates of up to 99.4% on an annual basis have been achieved, with an average of 95%. A major factor in the high utilization of this terminal has been the very low level of maintenance required on the SALM components. Planning the annual inspection and maintenance program with the diving contractor and developing detailed procedures for tanker change-out and for hose and hawser replacement were also important factors in maximizing operational efficiency.

Introduction

In recent years the petroleum industry has accepted the concept of using a single point mooring (SPM) as an integral part of an offshore production facility. The SPM, which provides direct tanker loading, may allow a field to be brought on-stream earlier than with a pipeline to shore, and it may allow the development of those fields having insufficient recoverable reserves to justify a pipeline. The Tembungo SALM is a good example of an early production application (Fig. 1).^{1,2}

The SALM is located 7,000 ft (2134 m) from a fixed separation platform and is connected to the platform by a single 10-in. (254-mm) pipeline. While the SALM was designed to moor a storage tanker permanently that would be offloaded periodically by shuttle tankers

moored alongside, it has been used only for shuttle service to date in an operation involving two dedicated 50,000-DWT (45 000-Mg) tankers that each load for 30 to 60 days.³ While one tanker is loading, the other tanker departs to discharge its cargo. In this service, with prolonged periods of berth occupancy, the two shuttle tankers effectively become temporary storage facilities. This type of operation requires periodic production shut-in while the loaded tanker departs the SALM and the empty tanker comes on. These operational procedures have proved effective for producing this field and should be equally effective in the production of other similar fields.

System Design Criteria

The Tembungo SALM has been designed to moor permanently a 94,000-DWT (85 000-Mg) vessel in the 100-year design environment. This environment and other pertinent design criteria are presented in Table 1.

The governing parameters for the structural design of an SPM terminal are the prediction of the statistically most probable peak mooring force and, for hawser-type systems, the selection of the bow hawser. The breaking strength of the hawser assembly will dictate the required structural capacity of the entire mooring facility. Peak mooring forces for the Tembungo SALM facility were determined by means of an empirical technique developed over the past 15 years through a continuing series of model test programs conducted by Exxon Research and Engineering and Exxon Production Research Co. The procedures used have been discussed in the literature by Flory and Poranski⁴ and Maddox.⁵

Based on the given environmental conditions, the following peak design forces were predicted.

Maximum bow hawser load, kip (kN)	840 (3736)
Maximum anchor leg (axial) load, kip (kN)	1,200 (5338)
Maximum anchor leg deflection (with vertical), degrees	37½

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Fig. 1—The Tembungo SALM.

TABLE 1—DESIGN CRITERIA FOR THE TEMBUNGO SALM

Water Depth, ft (m)	296 (90)
Tanker size, DWT (Mgt)	94,000 (85 000)
Significant wave height, ft (m)	21.0 (6.4)
Maximum wave height, ft (m)	39.0 (11.9)
Maximum wind velocity, mile/hr (m/s)	65 (29.5)
Maximum current velocity (perpendicular to waves), knots (m/s)	2.0 (1.0)
Product transfer piping, in. (mm)	10 (254)
Maximum operating pressure, psig (MPa)	200 (1.38)
Maximum surge pressure, psig (MPa)	400 (2.76)

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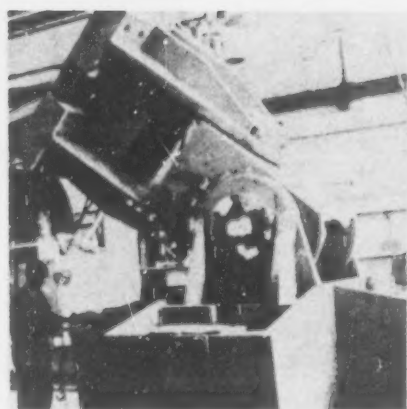


Fig. 2—Base universal joint



Fig. 3—Riser universal joint

System Component Description^{6,7}

The SALM mooring buoy is anchored through a single pretensioned anchor leg to a gravity-type mooring base at the seafloor (Fig. 1). The system is designed to remain constantly in tension during all operational and maximum storm conditions. The entire system was designed to be installed in three operations: set and ballast the base; attach the riser; attach the buoy. This procedure allowed the use of a small and inexpensive offshore construction spread. To minimize diver time and underwater work, the universal joint attachments between riser and base (Fig. 2) and buoy and riser (Fig. 3) were designed to be latched (or unlatched) hydraulically from the surface. Basic characteristics of the major SALM components are given in Table 2.

Operational Experience

The Tembungo field has produced continuously since Oct. 1974 at quarterly average rates varying from 2,000 to 16,000 BOPD (318 to 2500 m³/d). For this 7-year period, the average overall operational efficiency—i.e., total days minus total downtime days divided by total days—has been 95%. Operational efficiency is described in the following and is shown graphically in Fig. 7 and tabulated in Table 3.

1974. [Last quarter of 1974 (operation started Oct. 14).] Eighteen days' total system downtime: 1 day for tanker change-outs (two tankers), 4 days for maintenance, and 13 days waiting for tankers to arrive (77% efficiency).

1975. Twenty-six days' total system downtime: 2 days for tanker change-outs (four tankers), 15 days for maintenance, 4 days waiting on tankers to arrive, and 5 days with tanker standing by because of rough seas (92.8% efficiency).

TABLE 2—BASIC CHARACTERISTICS OF MAJOR SALM COMPONENTS

Mooring Buoy (Fig. 4)	22 ft (6.7 m) diameter x 36 ft (11 m) high; internally divided into eight watertight chambers.
Riser shaft (Fig. 5)	8.5 ft (2.6 m) diameter x 185 ft (56 m) long.
Mooring base (Fig. 6)	Gravity-type, self-floating design; in-place weight 4,600 kip (20,400 kN).
Anchor leg assembly (Fig. 3)	6-in. (152-mm) grade oil rig quality stud-link chain including permanently lubricated underwater ball bearing swivel and universal joint.
Loading hose system	10-in. (254-mm) hose string made up of four specially reinforced submarine hoses (from hose arm to Surfaces 1, 2, 3, and 4); two surface floating hoses (Surfaces 5 and 6), and a tanker rail hose. All hoses are 35 ft (11 m) long.
Mooring hawsers	Two nylon hawsers 15 in. (370 mm) circumference x 150 ft (46 m) long with 3-in. (76-mm) diameter chafing chain at buoy and tanker ends.
Pipeline end manifold (PLEM)	Gravity-type connected to SALM riser by two hoses, 10 in. (254 mm) ID x 35 ft (11 m) long, in series.

1976. Forty-five days' total system downtime: 1 day for tanker change-outs (four tankers), 4 days for maintenance, 20 days waiting on weather (WOW) to do maintenance, and 20 days waiting on tankers of arrive (87.7% efficiency).

1977. Thirty-two days' total system downtime: 6 days for tanker change-outs (13 tankers), 8 days for maintenance, and 18 days WOW or waiting on equipment to do maintenance (91.2% efficiency).

1978. Five days' total system downtime: 4 days for tanker change-outs (12 tankers) and 1 day for maintenance (98.6% efficiency).

1979. Fourteen days' total system downtime: 4 days for tanker change-outs (11 tankers), 6 days for maintenance, and 4 days WOW for maintenance (96.2% efficiency).

1980. Nineteen days' total downtime: 2 days for tanker change-out (8 tankers) and 17 days for maintenance (94.8% efficiency).

1981. Two days' total system downtime: 1½ days for tanker change-outs (6 tankers) and ½ day for maintenance (99.5% efficiency).

The influence of weather on operating efficiency primarily affected maintenance activities; 47 days were lost or about 29% of total days down since 1974.

Total downtime for Oct. 14, 1974, through Oct. 18, 1981, was 161 days, which included 37 days of waiting for the tanker to arrive. Actual overall efficiency (discounting early logistics problems) is then 95%.

Inspection and Maintenance

1975. The first annual maintenance and inspection was conducted April 14-24. Maintenance consisted of changing out the submarine and floating hoses and buoyancy tanks. Two underbuoy hoses and all but one of the floating hoses were retained for future use.

No scour was evident around mooring base and PLEM; the universal joints and the chain swivel were in good condition; the fluid swivel showed no leaks; and the protective coating system on the swivel and hose arm was in good condition.

1976. The annual survey was conducted June 28-July 4. Twenty days WOW to do maintenance was incurred waiting to reconnect the submarine hoses, which had been removed to conduct a fluid swivel rotational torque test (Fig. 8). The test showed that hose kinking was not caused by swivel torque but by the excessive length of

the hose string. The tankers were modified later in the year to allow bow loading in lieu of mid-ship loading, which had been employed since start-up.

Maintenance consisted of installing a new loading hose string, replacing mooring hawser assemblies, and sandblasting and painting the mooring buoy above the waterline. Additionally, the navigation lantern and batteries were replaced. A "Y" piece was installed on the hose arm to facilitate future hose replacements by allowing the old hose to be used as support while installing the new hose.

Inspection revealed the SALM to be generally in good condition, although the anodes had disintegrated more rapidly than anticipated. Steel construction debris left on the bottom and uncoated ballast bars in the hose arm counterweight were suspected of contributing to the rapid anode consumption.

1977. The SALM was shut in for 23 days for annual inspection and maintenance. During this time 9½ days were lost WOW and 6 days were lost from breakdowns on the maintenance vessel. Much of the weather and equipment downtime could have been avoided by better planning and the establishment of definitive maintenance procedures. The major task was the replacement of 42 cathodic protection anodes. Additionally, the buoy was sandblasted and coated above the waterline, and navigation lantern and battery pack were replaced. The loading hoses were replaced during this shutdown. Inspection of the U-joints, anchor chain, and chain swivel was not performed because of bad weather and excessive downtime replacing anodes.

Three days were lost during a shutdown in February in an attempt to replace the Surface 5 floating hose, which was chafing against the tanker's bulbous bow. Replacement was prevented because of bad weather. A total of 6 shut-down days were spent during tanker turnarounds in 1977.

1978. The annual inspection program was carried out April 20-24, during which time the SALM was inspected by divers using an underwater video camera. The Cam-Lok clamps, which connect the base hoses at PLEM and SALM riser piping, appeared to be deteriorated as a result of cathodic action. Bracelet anodes were installed, and one of the two clamps was replaced in 1980.

1979. The annual SALM inspection and maintenance program was conducted August 13-20. As a result of careful planning, production was shut in for only 13 hours while a new submarine hose string was connected.

TABLE 3—OPERATIONAL EFFICIENCY, DOWNTIME SUMMARY (days)

	1974	1975	1976	1977	1978	1979	1980	1981	Total by Item
Tanker change-outs	1	2	1	6	4	4	2	1.5	21.5
Maintenance activities	4	15	4	8	1	6	12	0.5	50.5
WOW to perform maintenance	—	—	20	18	—	4	5	—	47
WOW to moor or load	—	5	—	—	—	—	—	—	5
Waiting on tankers	13	4	20	0	—	—	—	—	37
Total (D/yr)	18	26	45	32	5	14	19	2.0	161

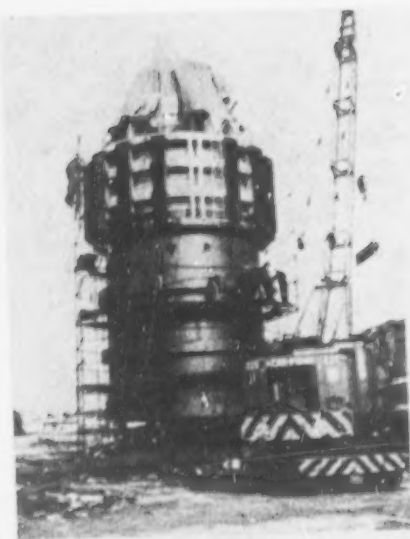


Fig. 4—Mooring buoy

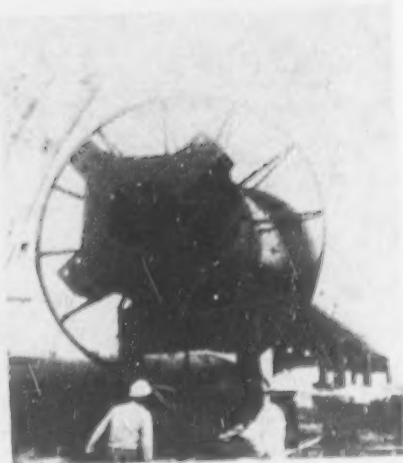


Fig. 5—Riser shaft

Except for that time, the tanker was loading continuously during the entire inspection and maintenance program.

The hose inspection showed that liners and covers were in good condition. There was no evidence of searing around mooring base or PLEM. Bracelet anodes at ends of PLEM-SALM hose were approximately 30 to 50% consumed. The universal joints and all other components were in good condition.⁵

1980: The annual inspection was conducted March 25-April 6, during which time the usual visual inspections were conducted, measurements were taken on the fluid swivel and chain assembly, and the 10-in. (25.4-cm) ball valve on the hose arm was replaced.

The most significant operation planned for this period was the replacement of the base hoses. While there had been no evidence of malfunction of these hoses after 5½ years' continuous operation, they were covered with a layer of marine growth, and replacement was done as a precautionary measure.

The work was done by a two-man saturation diving system working from a 150-ft (46-m) barge with a four-point mooring system. The replacement operation went very smoothly, and bracelet anodes were installed on the spool pieces between riser, hoses, and PLEM.

Later inspection showed both the original hoses and the Cam-Lok connections to be in good condition. Twelve days' downtime was required for this work; note, however, that during 70% of this period there were 6- to 7-ft (1.8- to 2.1-m) seas and 20- to 25-knot (10- to 12.5-m/s) winds.

On May 11, during a routine inspection dive, divers noticed that the gap between the two moving parts of the

chain swivel had opened up considerably. The gap was measured to be 2½ in. (7.3 cm), compared with the original as-built gap of ½ in. (0.3 cm). At this time the decision was made to install a spare chain swivel located at the warehouse in Kota Kinabalu. (Later, detailed investigation by the manufacturer revealed that swivel failure was due to failure of the oil seal between the shank and the barrel. Loss of lubricant and subsequent deterioration of the bearing in seawater caused bearing failure and total lock-up of the swivel. Since then a new seal arrangement has been designed consisting of a Turcite element energized by a Buna-N insert, plus a guide spacer to prevent "cocking" of the shaft during shipping and handling.)

Because the only support vessel available at the time was a 130-ft (40-m) supply boat with a four-point mooring system, it was necessary to wait for calm weather. By May 27 the gap was 4½ in. (12.4 cm). During this period, detailed preparatory work was carried out, including fabrication and installation of a support frame for the upper universal joint and a support cradle for the main shackle pin.

The vessel was anchored, and ballasting of the buoy began on June 1. After the chain assembly was slack, a 15-ton (13.6-Mg) hydraulic jack was used to remove the pin from the shackle connecting the chain assembly and universal joint. The buoy then was deballasted, the anchor chain assembly winched over the stern roller and onto the deck of the supply boat, and the buoy secured to the stern of the vessel. The chain swivel and connecting shackles were replaced and lowered into the water, and the buoy was rebalasted. The four-point mooring system then was manipulated to position the shackle precisely

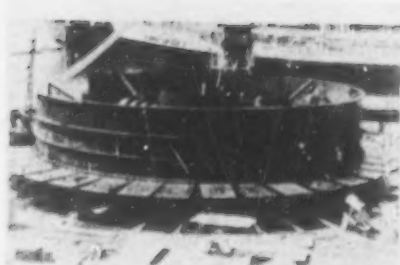


Fig. 6—Mooring base structure

over the universal joint, and the pin was installed with the hydraulic jack and preinstalled pin cradle. Total downtime amounted to only 69 hours from shutdown of production to restart of production through the SALM, thus illustrating the value of thorough preparation (total preparatory dive was 9.5 hours vs. 8.9 hours diving during the actual replacement operation).

1981. The annual inspection was divided into two phases, with the first phase to cover the shallow components (from the hose arm up to the buoy) and the second phase covering the deeper components (from the top universal joint down to base).

Phase 1 was conducted during April 8-23, and except for the U-joint thrust washer the system was in good order. On April 14, during Phase 1, the routine inspection of the upper universal joint revealed that one washer had disintegrated. Several pieces of the broken thrust washer were recovered at the bottom of the U-joint housing. (Later, investigation revealed that failure occurred because of dezincification of the self-lubricating bronze thrust washer (ASTM B-22, Alloy E). Use of this alloy was discontinued by the fabricator several years ago in favor of a nickel aluminum bronze (ASTM B148, Alloy 955).

After discussions with local maintenance personnel it was decided to manufacture a mild steel washer on location. The washer was made in two halves from 3/4-in. (1.9-cm) plate. The tanker was unmoored, the buoy ballasted down, and the two halves of the washer fitted in and wet-welded. Total production downtime amounted to 13 hours.

As of Oct. 1981 no swivel torque test had been carried out. Careful monitoring by divers and tanker crew gave no indication of any torque buildup, and the fluid swivel hose arm was moving relative to the tanker. No major immediate operational problems are foreseen, and regular monitoring will continue.

Phase 2 of the annual inspection was conducted in Aug. 1981, and all the deep components were found to be in good condition.

Early Operation Problems and Solutions

Initially there were certain operational problems that resulted in some system/production downtime. These initial operating problems were twofold:



Fig. 7—Operating efficiency plot

1. The tanker had a tendency to ride up on the buoy in calm weather, causing kinking of the cargo hose directly off the hose arm.

2. The chafing chain at the tanker fairlead experienced accelerated wear.

The tankers *Esso Chile* and *Esso Cristobal*, which were used for most of the operating period covered by this paper, were unable to run their engines astern for extended periods without overheating their condensers, which made it difficult for them to maintain the necessary hose tension in calm weather.

Remedial actions considered included: (1) rotation of the hose by a workboat, (2) periodic reversal of tanker engines to tension hawser and hose string, (3) provision of tug boat to keep tension on the stern of the tanker, (4) installation of stern thrusters, (5) installation of 24-in. (610-cm) surplus marine hoses over 10-in. (25-cm) Cargo Hoses 1 and 2 to increase hose rigidity, (6) installation of a backstop on the hose arm to limit vertical excursion, (7) modification of the tankers to accept bow loading, thereby reducing the length of hose in the water, and (8) modification of the tankers to run continuously astern.

After discarding all other solutions as impractical or too expensive, and after consultation with the manufacturers of the ship's turbines, a simple, inexpensive modification was effected that allowed low speed (10 to 24 rpm) astern power to be maintained over an extended period. This modification featured installation of a 5-in. (13-cm) line from the desuperheated (saturated) steamline, which powers the cargo pumps to the steam inlet on the low pressure astern turbine.

The operating philosophy for engine reverse running was to run continuously at 10 rpm whenever windspeeds fell below 10 to 15 mile/hr (4 to 7 m/s). For the 50,000-DWT (45 000-Mg) class tankers, *Esso Chile* and *Esso Cristobal*, this procedure resulted in incremental fuel (diesel) consumption of 2 long tons (2032 kg) per full day of continuous astern running.

Additionally, the tankers were modified to allow the cargo hose to come over the forecastle rail at a point about 20 ft (6 m) abaft the stem. This modification reduced hose maintenance by helping prevent kinking of the long hose string and by eliminating chafing against the ship's bow. The use of astern power substantially eliminated operating problems at the Tembungo SALM.

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Fig. 8—Fluid swivel

as evidenced by the average 7-year terminal efficiency of 95% and the last 4 years of 97.2%.

1978	1979	1980	1981
96.6%	96.2%	94.8%	99.4%

The problem of excessive chafing chain wear was greatly reduced by the application of astern power and frequent lubrication of the chain where it enters the tanker bow chock. The average frequency of chain replacement has been approximately every 3 to 4 months and is generally coincident with tanker change-outs.

Costs

Of particular interest to potential operators of offshore loading systems are the overall costs involved. For the Tembongo SALM in 1982 dollars, typical costs are given in Table 4.

Conclusions

The Tembongo SALM has proved a mechanically sound system that allowed bringing a small field onto production earlier and cheaper than would have been possible by other means. The design criteria of 95% operational efficiency has been met, as indicated by the operating history described in this paper.

Pertinent conclusions offered by this history are as follows:

1. The importance of prudent tanker selection to optimize performance and minimize modifications.
2. The importance of planning maintenance and inspection activities and of developing practical offshore procedures for the replacement of hoses and hawsers.⁹
3. The necessity of having capability to apply slow astern power for extended periods.
4. The inherent low maintenance features of the mooring system.

It is important to re-emphasize that only two major components of the Tembongo SALM have required maintenance of any significance since start-up in 1974. This low requirement for maintenance on SALM components may be attributed to the inherent advantages of the SALM system and to novel design features that

TABLE 4—TEMBONGO SALM TYPICAL COSTS
(1982 U.S. dollars)

Complete SALM hardware and hose system for bow loading	5,500,000
Transportation, installation, and commissioning	2,000,000
Total cost (without pipeline)	7,500,000
Modifications to allow continuous slow astern power	20,000
Bow loading modification	25,000
Incremental diesel fuel cost at \$1.00/gal assuming 80% astern turning annually	270,000/yr
Maintenance vessel and crew charged to SALM	500,000/yr
SALM maintenance costs	250,000/yr
Replacement costs of hoses, hawsers, and chafing chain	100,000/yr

eliminate the necessity for periodic lubrication of the fluid swivel, chain swivel, and universal joints. With a properly modified tanker and careful attention to planning and training functions, a competently designed hawser-type SALM mooring system can provide an efficient, low-cost offshore storage/loading facility.

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SI Metric Conversion Factors

ft	× 3.048*	E-01	= m
mile	× 1.609 344*	E+00	= km
naut mile	× 1.852*	E+00	= km

*Conversion factor exact.

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SOPEC
OUTSTANDING QUOTATIONS

JULY 1982

(000 OMITED)

<u>Customer</u>	<u>Location</u>	<u>Date of Quotation</u>	<u>Value</u>	<u>Estimated Profit</u>	<u>Probability of Obtaining Order</u>	<u>Estimated Award Date</u>
Caragali	Malaysia		4,000,000	720,000	80%	
Mobil Arun	Indonesia	Dec 81	6,000,000	1,080,000	40%	
Fukui	Japan	Dec 81	5,000,000	900,000	40%	
KPDC	Korea	Dec 81	2,800,000	504,000	30%	
AGIP	Libya	Dec 82	25,000,000	4,500,000	30%	
ONGC	India	July 82	3,683,000	663,000	20%	
ICS	Senegal		1,300,000	234,000		Dec 82
CEUTA	Spain	Oct 81	2,525,000	454,500	30%	
ASSIR	Saudi	July 82	3,358,000	429,000+	20%	Dec 82
BOHAI	China	Apr 82	12,100,000	2,178,000		
BOHAI	China	Apr 82	9,750,000	1,755,000	10%	
BOHAI	China	Apr 82	4,800,000	864,000		
KYUSHU	Japan	Jan 82	3,360,000	605,000		
KYUSHU	Japan	Jan 82	3,120,000	562,000	40%	
Total ISIS	Tunisia	May 82	16,000,000	2,880,000	10%	
Texaco Denmark	Denmark	Apr 82	6,000,000	1,080,000		
Texaco Denmark	Denmark	Apr 82	4,800,000	864,000	20%	
CPC Sri Lanka	Sri Lanka	Feb 82	3,719,000	670,000		
CPC Sri Lanka	Sri Lanka	Feb 82	3,694,000	665,000	25%	
Marathon KKAP		Dec 82	Lease	Lease		



9 August 1982

Ms. Jean Capets
Export-Import Bank
811 Vermont Avenue N.W.
Washington, D.C. 20571

Dear Ms. Capets:

We are pleased to supply the following information to obtain a Preliminary Commitment for the ONGC Tender BOP/SP/ENC/SH/5(1)/82/298 for Permanent Production Deck with Associated Equipment for SHD Platform of SH Platform Complex in Bombay High Area, India.

1. Name and Address of Borrower - ONGC, Bombay, India
2. Purpose of the Proposed U.S. Financing and Its Relationship to Total Project Cost - (a) To provide an American designed, engineered and predominately manufactured offshore mooring system; and (b) Relationship to total project cost is not known.
3. Description of Equipment and Services to be Purchased with Ex-Im Financing - To purchase an American designed, engineered and predominately manufactured offshore mooring system. The equipment will be delivered approximately 6 to 8 months after receipt of order. At this date, we do not know when the entire ONGC project will either be completed or commercial operations commence.
4. Copy of Bid Document - A copy is enclosed.
5. Audited Financial Statements of Borrower - It is assumed that Ex-Im has a copy in their files. If not, please advise and we will try to obtain same.
6. Guarantee by Host Country Government or Branch - It is assumed that the financing will be guaranteed by either the government or Bank of India.
7. Borrower's Financial Projections - Unfortunately, we have not been provided with ONGC's financial projections.
8. Engineering and Marketing Data Demonstrating the Economic and Technical Feasibility of the Transaction - A copy of the technical proposal is enclosed.

9. Foreign Competition for this Sale - The foreign competition for this sale will be:

- A. (1) EMH - France
 (2) IMODCO - U.S. or Canada
 (3) SBM - Monaco, Switzerland or U.K.
 (4) Bluewater Marine Terminal - Holland

B. It is anticipated that EMH will offer a similar financing package to their successful Petrobras proposal in Brazil:

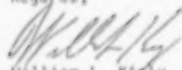
- (1) 8-1/4% interest for 10 years
 (2) 2 year grace period

10. Effects of Sale on Employment to Contractor and Effect on Major Subcontractors - Loss of the sale may result in a reduction of SOFEC's personnel. However, continued loss of projects due to non-competitive financing will significantly effect SOFEC's ability to compete in world markets and commercial viability. The effect on subcontractors may be more dramatic since our manufacturing subcontractors are located in Ohio, Pennsylvania, and Texas, where the availability of fabrication work has been severely impaired due to prevailing economic conditions.

11. Private Source Financing - We have received a quotation to provide financing at LIBOR plus 7/8% plus 3/4% fee which will make our proposal non-competitive. Thus, it is necessary to obtain Ex-Im financing to be competitive.

Your assistance in evaluating our proposal and providing a Preliminary Commitment will be appreciated. We have the best product available, but our overseas selling has been limited due to the inability to provide competitive financing.

Regards,


 William L. Kjely
 President

WLK:pb

Enclosures

2000 WEST LOOP SOUTH • SUITE 800 • HOUSTON, TEXAS 77027 • TEL. (713) 877-2777 • TWX 910 • 681 • 5026 • TELEX 774588



13 August 1982

Ms. Jean Capets
Export-Import Bank
311 Vermont Avenue N.W.
Washington, D.C. 20571

Subject: Preliminary Loan Commitment - India

Dear Ms. Capets:

In accordance with our recent conversations with you and Mr. Hefferon, the following information is supplied to enable you to process our request.

1. REQUESTED LOAN AMOUNT AND U.S. CONTENT

<u>Item</u>	<u>U.S. Supply</u>	<u>Non-U.S. Supply</u>	<u>Total</u>
a. Engineering and Project Management	\$ 480,000	\$ 20,000	\$ 500,000
b. Buoy Rotating Assembly and Auxiliary Components	1,578,000	-0-	1,578,000
c. Mooring Hawser Assemblies	122,000	-0-	122,000
d. Anchor Chain	1,113,000	-0-	1,113,000
e. Underbuoy and Floating Hoses	101,000	801,000	902,000
f. Pipeline End Manifold	<u>121,000</u>	<u>-0-</u>	<u>121,000</u>
Totals	\$3,515,000	\$821,000	\$4,336,000

We are requesting you consider the total U.S. content of \$3,515,000 as the basis for the preliminary commitment. We suggest that payback of the loan commence with production start-up.

2. GENERAL PROJECT DESCRIPTION

SOFEC is bidding to provide a Single Point Mooring System (SPM) to enable ONGC to ship oil from their SHD Platform of the SH Platform Complex in Bombay High Area, India. The remainder of the facilities are also out for bid at this time.

SOFEC is bidding to Mazagon Dry Dock, an Indian Government facility which ONGC has tasked to supply certain of the facilities, including the SPM. The eventual purchase will be made by ONGC through Mazagon. Recipient of the loan will be ONGC.

3. PROJECT TERMS

We anticipate that the contract will be awarded in September 1982. Supply of the SPM is scheduled for March-April 1983 with system installation in April-May 1983.

Production start-up is scheduled for third quarter 1982.

4. COMPETITORS

As is typical, SOFEC faces severe competition on this project. We have been informed that our competitors, thus far, are Single Buoy Mooring and IMODCO.

A copy of a telex confirming this information is attached.

As a general guideline concerning competition, I enclose a copy of the list of existing Single Point Mooring Systems, as compiled by Subsea Magazine along with installation lists published by SBM and IMODCO.

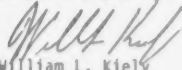
As you can see from the Subsea list, SOFEC sees continued severe competition.

5. FINANCIAL REQUIREMENTS

SOFEC was requested to offer financing for this work as evidenced by the attached letter of Bid Instructions (see paragraph 8).

Please let me know if we can provide any additional information.

Very truly yours,


William L. Kiely
President

WLK:pb

Enclosures

VIA WUI*
SCFLO HCU

31 4846 PARV IN
EOMTAY 12/8/82

ATTN: MR. J.W. HODGES

IN CONTINUATION TO OUR TLX DT. AUG. 11, 82
PL NOTE WE HAVE FOLLOWING TWO COMPETITORS.

1. SBN, HOLLAND.
2. INODECO

FURTHER DETAILS WILL BE SENT TO YOU ON TUESDAY.

RLCARDS
PRAKASH
PARVEEN INT PVT LTD
11 5314 SACK IN
OF
11 3990 AMUP IN
...
CALL JAPAN VIA WUI-101
!!

A
AUG 1982
RECEIVED



टेलीग्राम/Telex : 011 2568 महाजि.
टेलीफोन/Phone : 011 4814 MDLIN
फोन/Phone : 99041 (20 लाइनें/Lines)
ग्राम/Office : माझगांव/MAZDOCK
बंबई/Bombay

माझगांव डॉक लिमिटेड Mazagon Dock Limited

सभी उत्तर अप्रत्यक्ष एवं प्रत्यक्ष निर्देशक को संबोधित

All replies to be addressed to
The Chairman & Managing
Director

बहाज निर्माता - बहाज मरम्मत - इंजीनियर्स
ऑफशोर प्लेटफॉर्म निर्माता
(भारत सरकार का उद्यम)

SHIPBUILDERS - SHIPREPAIRERS - ENGINEERS
MANUFACTURERS OF OFFSHORE PLATFORMS
(A Govt. of India Undertaking)

रजिस्टर्ड कार्यालय एवं बंकसाय :
डॉकयार्ड रोड, माझगांव,
बंबई-400 010.
Regd. Office & Workshop :
Dockyard Road, Mazagon,
Bombay-400 010.

हमारा संदर्भ क्रमांक/Our Ref. No. **OM/WRP/SH-3PM**

8th June 1982.

SOPEC Inc.
2000 West Loop South
Suite 990
Houston, Texas 77027
U. S. A.



Dear Sirs,

**Sub: Single Buoy Mooring System for SH Platform
Complex at Bombay High for ONGC**

We enclose herewith copy of the inquiry document of May '82 prepared by Engineers India Ltd. for a Single Buoy Mooring System for SH Platform Complex for Oil & Natural Gas Commission. The system would be fabricated at our yard. In order to undertake the construction of this system at our yard, we would request you to forward your detailed proposal for supply of services and components as mentioned below.

2. A. Services

- i) Engineering and model testing of the system.
- ii) Design and preparation of construction drawings.
- iii) Supply of qualified construction adviser at our yard during construction of the Buoy.
- iv) Supply of qualified installation adviser at site during installation of the system.

3. B. Components

A list of the various components to be supplied by you along with itemwise prices should be mentioned. In addition a list of the bought out items which are not included in your scope of supply should also be included so as to assist us in preparation of the estimates.

4. C. Optional work

Your prices for design, engineering, supply, etc. for optional work of tender mooring of Export Tanker with the storage tanker as given in para 3 of part I of the specification to be given separately.

5. The above scope for supply of services and components in brief and a detailed proposal giving all the technical details, specifications etc. should be forwarded by you. Your proposal

should be forwarded in sextet in a sealed envelope marked as "Offer for supply of design/components for Single Buoy Mooring System for 3M Platform Complex". Your offer should be deposited in the Office of the General Manager, Offshore Project, Mazagon Dock Limited, by 1200 hours of 12-7-82. In case the offer is sent by post, the same must be received by us two days before the due date i.e. 12-7-82.

6. Your proposal must indicate detailed commercial terms and deviations from the EIL's specifications, if any, must be brought out clearly.

7. Your proposal must be valid for our acceptance for a period of 120 days from 12-7-82.

8. Your proposal must indicate whether you can offer any credit facilities, either supplier's credit or Government to Government credit or export credit etc., clearly specifying the terms of such credit viz. currency in which loan is to be repaid, down payment required against shipping documents, period of loan, moratorium period, rate of interest, guarantee requirements etc. If the loan is from Government to Government credit, reference to the credit must be given. Appropriate preference would be given to the vendors offering suitable credit facilities.

9. The complete system in all respects is required by OMGC by 1-9-83. As such, your proposal must indicate in detail delivery schedule of all the items being supplied by you so as to enable us to complete fabrication and deliver the system by 1-9-83.

10. In case of delay in delivery, penalty at the rate of 1/2% per week subject to a maximum of 5% of contract price will be recovered.

11. The amount of Indian Agent's commission, if any, included in your prices along with name and address of the Indian Agent should be mentioned in your proposal. Indian Agent's commission, if any, would be paid in Indian Rupees.

12. The complete system must be guaranteed by you for defects due to design/engineering, bad workmanship or faulty material for a period of 12 months from the date of commissioning of the system or 18 months from the date of delivery of the system to OMGC at our yard. During this period, you shall replace or repair defective parts at no cost to us on CIF basis. An unconditional Bank Guarantee valid for the guarantee period for 10% of the value of the contract would also be required to be furnished.

13. Your proposal must be accompanied with a Bid Bond of 2% value of your offer in the form of an unconditional guarantee from a reputed Bank.

14. All the charges payable to American Bureau of Shipping or any other certification/classification agency appointed by OMGC for review of design/engineering and inspection of the components shall be borne by you.

15. We reserve the right to accept or reject any proposal without assigning any reason whatsoever.

Thanking you,

Yours faithfully,
For MAZAGON DOCK LIMITED,

Encl: As above.

BY: MANAGER (OPS)

A 21 year review—offshore mooring terminals

No.	Year	Country	Port Field	Owner	Contractor/Designer	Max. Vessel Size in DWT	Hose System Number-Size
1	1959	Sweden	Dularö	Swedish Navy	IMODOCO	3,000	1-4 in.
2	1960	Malaysia	Mini	Shell	SBM	70,000	2-8 in. + 1-6 in.
3	1960	Malaysia	Mini	Shell	SBM	70,000	2-8 in. + 1-6 in.
4	1961	Italy	Ravenna	SAROM	IMODOCO	50,000	2-12 in.
5	1961	Japan	Nagata	Shell	Nagata	100,000	1-20 in.
6	1961	Spanish Sahara	El Anoun	CEPSA	IMODOCO	3,000	1-6 in.
7	1962	Germany	Cuxhaven	West German Navy	IMODOCO	2,000	1-4 in.
8	1962	Italy	Fiumicino	Purifina	IMODOCO	50,000	2-12 in.
9	1962	Libya	Brega	Esso	Esso Fr. Harris	100,000 Fixed Tower	Loading Arm
10	1963	Japan	Oita	Kyushu Oil	IMODOCO	100,000	2-12 in.
11	1963	Malaysia	Port Dickson	Shell	SBM	100,000	2-16 in.
12	1963	Spanish Guinea	Bata	CEPSA	IMODOCO	20,000	1-16 in.
13	1964	Italy	Fiumicino	Purifina	IMODOCO	100,000 Fixed Tower	1-6 in.
14	1964	Qatar	Harul	Shell	Dalmine	100,000	2-8 in.
15	1964	Japan	Yokkaichi	Shell	Mitsubishi	120,000	2-16 in.
16	1964	Japan	Yokkaichi	Shell	Mitsubishi	200,000	2-20 in.
17	1964	Malaysia	Mini	Shell	SBM	70,000	2-12 in. + 1-6 in.
18	1964	Malaysia	Mini	Shell	SBM	70,000	3-12 in. + 1-5 in.
19	1965	United Kingdom	Nore Estuary	British Petroleum	BP Harland & Wolff	100,000	2-16 in.
20	1965	Gabon	Gariba	Shell	SBM	100,000	3-12 in.
21	1965	Japan	Chiba	Maruzen Oil	IMODOCO	100,000	3-16 in.
22	1965	Libya	Ras-Es-Sudr	Oasis Oil	SBM	100,000	2-16 in.
23	1965	Qatar	Harul	Shell	SBM	100,000	2-16 in.
24	1965	Korea	Ulsan	Korea Oil Corporation	IMODOCO	75,000	2-12 in. + 1-8 in. + 1-4 in.
25	1966	Oman	Mina-Al-Fahal	Shell	SBM	165,000	2-16 in. + 1-8 in.
26	1966	Oman	Mina-Al-Fahal	Shell	SBM	165,000	2-16 in. + 2-8 in.
27	1966	Bangladesh	Chittagong	Chittagong Port Trust	IMODOCO	100,000	1-12 in.
28	1967	Japan	Koshiba	U.S. Army	IMODOCO	100,000	2-12 in.
29	1967	Kuwait	Ras-Al-Khafji	Arabian Oil	McDermott	150,000	1-16 in. + 1-12 in.
30	1967	Nigeria	Anapa	Nidogas	IMODOCO	108,000	1-4 in. + 1-3 in.
31	1967	Philippines	Subic Bay	U.S. Navy	IMODOCO	100,000	2-16 in. + 1-10 in.
32	1967	Spain	Huelva	Rio Tinto	SBM	50,000	2-16 in.
33	1967	Taiwan	Tai-Chung	U.S. Air Force	IMODOCO	50,000	1-12 in.
34	1967	Gabon	Luena	Shell	SBM	165,000	2-16 in.
35	1967	USA	Louisiana	Kerr-McGee	McDermott	8,000	1-4 in.
36	1967	Angola	Cabinda	Gulf	SBM	100,000	2-16 in.
37	1968	France	Bay of Biscay	Elf	CFEM	Art. Column	Prototype
38	1968	Egypt	Ras-Et-Sheiq	WEPCO	IMODOCO	100,000	2-16 in.
39	1968	Japan	Hakozaki	U.S. Army	IMODOCO	100,000	2-16 in. + 1-12 in. + 1-10 in.
40	1968	Japan	Ka-jasaki	Showa-Mitsubishi Oil	Mitsubishi	264,000	2-20 in.
41	1968	Japan	Hokodate	Asa Oil	IMODOCO	32,000	1-16 in.

A 21 year review—offshore mooring terminals

No.	Year	Country	Port Field	Owner	Contractor/ Designer	Max. Vessel Size in DWT	Hose System Number-Size
42	1968	Japan	Yokkaichi	Dai-kyo Oil	Mitsubishi	200,000	2-20 in.
43	1968	Korea	Yosu	Honam Oil, Callex	IMODOCO	100,000	2-16 in.
44	1968	Korea	Ulsan	Korea Oil Corporation	IMODOCO	200,000	2-16 in. + 1-12 in.
45	1968	Libya	Zuelina	Occidental	SBM	100,000	1-24 in.
46	1968	Nigeria	Escravos	Gulf	IMODOCO	100,000	2-16 in.
47	1968	Taiwan	Kachiusung	CPC	IMODOCO	100,000	2-16 in. + 1-10 in.
48	1968	Taiwan	Tai-Chung	U.S. Air Force	IMODOCO	50,000	1-12 in.
49	1968	Venezuela	Marandai	Petrobras	SBM	100,000	2-16 in.
50	1969	Brazil	Toyama	CYP	SBM Verdime	105,000	2-16 in.
51	1969	Japan	Ogishima	Japan Sea Oil Co	IMODOCO	150,000	2-16 in.
52	1969	Japan	Brega	Ogishima Oil	Mitsubishi	200,000	2-20 in.
53	1969	Libya	Zuelina	Occidental	Esso, Van Houten	300,000 SALM	1-24 in.
54	1969	Libya	Zuelina	Occidental	SBM	150,000	1-24 in. + 1-24 in.
55	1969	Libya	Forcados	Shell	SBM	210,000	2-20 in.
56	1969	Nigeria	Forcados	Shell	SBM	210,000	2-20 in.
57	1969	Nigeria	Forcados	Shell	SBM	20,000	2-8 in.
58	1969	South Vietnam	Tanmy	U.S. Navy	McDermott	20,000	2-16 in.
59	1969	UAE	Falah Field	Dubai Petroleum Co	SBM	150,000	1-16 in. + 1-12 in.
60	1970	Argentina	Puerto Rusales	YPF	IMODOCO	40,000	1-24 in. + 1-16 in.
61	1970	Canada	Saint John, NB	Inver Oil	SBM	350,000	2-12 in.
62	1970	Indonesia	Pangkalan Sulu	Pertamina	IMODOCO	100,000	2-16 in.
63	1970	Iran	Cyrus Field	IPAC	SBM	140,000	2-16 in.
64	1970	Italy	Fiumicino	Purfinia	Daimine	100,000	1-16 in.
65	1970	Iran	Inan Hasan	SIRIP	IMODOCO	250,000	2-16 in.
66	1970	Japan	Atsumi	Chubu Electric	Mitsubishi	200,000	2-20 in.
67	1970	Japan	Himeji	Idemitsu Oil	IMODOCO	220,000	2-20 in.
68	1970	Japan	Buckner Bay	Toyo Gasoline	IMODOCO	100,000	2-16 in.
69	1970	Japan	Tengan	U.S. Army	IMODOCO	50,000	2-12 in.
70	1970	Japan	Onoda	Seibu Oil	Mitsubishi	200,000	2-20 in.
71	1970	Libya	Ras-Es-Sider	Oasis Oil	SBM	255,000	2-24 in.
72	1970	Libya	Ras-Lanuf	Mobil	SBM	255,000	2-24 in.
73	1970	Morocco	Mohammedia	RAPC	IMODOCO	100,000	1-20 in. + 1-8 in.
74	1970	Singapore	Singapore	Esso	IMODOCO	250,000	2-24 in.
75	1970	South Africa	Durban	Shell BP, Mobil	SBM	210,000	2-24 in.
76	1971	Australia	Bolany Bay	Maritime Services	SBM	120,000	3-12 in.
77	1971	Brazil	Tramandai	Petrobras	SBM	200,000	1-24 in.
78	1971	Brunei	Seria	Shell	SBM	150,000	2-16 in.
79	1971	Japan	Yokkaichi	Dai-kyo Oil	Mitsubishi	200,000	2-20 in.
80	1971	Chile	Quintero Bay	NAP	SBM	209,000	2-20 in.
81	1971	Indonesia	Baligapapan	anon Oil	SBM	250,000	2-20 in. + 1-16 in.
82	1971	Indonesia	Java Sea	ARCO	McDermott	45,000	1-8 in.

No.	Year	Country	Port/Field	Owner	Contractor/ Designer	Max. Vessel Size in DWT	Hose System Number-Size
83	1971	Indonesia	Java Sea	IIAPCO	IMODCO	55,000	2-12 in.
84	1971	Italy	Porto Torres	Sardoli	SBM	255,000	2-20 in.
85	1971	Japan	Nakagusuku Bay	Esso	Esso, Van Houten	250,000 SALM	2-24 in.
86	1971	New Zealand	Waipipi Point	Marcona Corp	IMODCO	75,000	1-12 in.
87	1971	Nigeria	Oua Iboe	Phillips	SBM	255,000	2-24 in.
88	1971	Norway	Ekofisk	Phillips	SBM	150,000	1-20 in.
89	1971	Norway	Ekofisk	Phillips	SBM	60,000	1-20 in.
90	1971	Taiwan	Kachiusung	CPC	SBM	250,000	2-20 in.
91	1971	United Kingdom	Humber River	Conoco	SBM	210,000	1-24 in.
92	1971	Denmark	Danfield	Danbor	SBM	70,000	1-12 in.
93	1972	Italy	Ancona	API	Lavore Adriatica	300,000 Fixed Tower	
94	1972	Dominican Rep.	Santo Domingo	Japan Gasoline	Maritime		
95	1972	Ecuador	Esmeraldas	Gulf/Texaco	SBM	150,000	2-16 in.
96	1972	Ecuador	Esmeraldas	Gulf/Texaco	SBM	100,000	2-20 in.
97	1972	Indonesia	Java Sea	ARCO	IMODCO	133,000	1-24 in. + 1-20 in.
98	1972	Indonesia	Java Sea	IIAPCO	IMODCO	55,000	2-16 in. + 1-12 in.
99	1972	Italy	Genoa	Port Authority	CIDONIO	500,000 Fixed Tower	2-12 in. + 2-20 in.
100	1972	Kuwait	Ras-Al-Khali	Arabian Oil	McDermott	250,000	2-20 in. + 2-12 in.
101	1972	New Zealand	Taharoa	N.Z. Steel Corp.	IMODCO	70,000	1-24 in. + 1-10 in.
102	1972	Nigeria	Brass River	AGIP	IMODCO	200,000	2-12 in.
103	1972	Nigeria	Escravos	Gulf	SBM	300,000	2-20 in.
104	1972	Nigeria	Forcados	Shell	SBM	313,000	2-24 in.
105	1972	Qatar	Hallul	Shell	McDermott	300,000	2-24 in.
106	1972	Qatar	Umm Said	Qatar Petroleum Co.	IMODCO	300,000	2-24 in.
107	1972	Saudi Arabia	Zulul	ARAMCO	SBM	250,000	1-20 in. + 1-24 in.
108	1972	Saudi Arabia	Zulul	ARAMCO	SBM	450,000	2-24 in. + 1-16 in.
109	1972	Spain	Ampostia	Shell	SBM	33,500	2-24 in.
110	1972	Tanzania	Dar-Es-Salaam	East African Harb. Corp.	SBM	100,000	3-10 in.
111	1972	Japan	Onoda	Seibu Oil	Mitsubishi	200,000	2-20 in.
112	1972	Trinidad	Galeota Point	AMOCO	SBM	250,000	2-20 in.
113	1972	Tunisia	Ashtart	Aquilane	SBM	70,000 SBS	2-8 in.
114	1972	UAE	Das Island	ADMA	IMODCO	300,000	2-24 in. + 1-16 in.
115	1972	UAE	Fateh Field	Dubai Petroleum Co.	McDermott	300,000	2-24 in.
116	1972	UAE	Mubarras Field	Abu Dhabi Oil Co.	SBM	200,000	1-24 in.
117	1973	Congo	Djeno	ELF Congo	SBM	250,000	2-20 in.
118	1973	France	Frontignan	Mobil	IMODCO	270,000	2-20 in.
119	1973	Indonesia	Djalbarang	Perlamina	IMODCO	150,000	3-20 in.
120	1973	Nigeria	Bonny	Shell BP	SBM	313,000	2-24 in.
121	1973	Nigeria	Bonny	Shell BP	SBM	313,000	2-24 in.
122	1973	Oman	Mina Al-Fahal	Shell	SBM	500,000	2-24 in. + 2-16 in.

A 21 year review—offshore mooring terminals

No.	Year	Country	Port Field	Owner	Contractor/Designer	Max. Vessel Size in DWT	Hose System Number-Size
123	1973	Turkmenistan	Pompe a Pierre	Texaco	IMODCO	260,000	2-24 in. + 1-12 in.
124	1972	Japan	Kawasaki	Shimizu	Shimizu	264,000	2-20 in.
125	1973	UAE	Shahjeh	Crescent	SBM	350,000	2-20 in. + 1-16 in.
126	1974	Argentina	Calela Oliva	YPF	IMODCO	60,000	1-20 in. + 1-12 in.
127	1974	Malaysia	Labuan	Shell	SBM	313,000	2-20 in.
128	1974	Brazil	Sao Francisco	Petrobras	IMODCO	200,000	2-20 in.
129	1974	Egypt	Suez	E.G.P.C.	IMODCO	250,000	2-24 in.
130	1974	Egypt	Suez	E.G.P.C.	IMODCO	120,000	2-20 in.
131	1974	Egypt	Alexandria	E.G.P.C.	IMODCO	250,000	2-24 in. + 1-20 in.
132	1974	Egypt	Alexandria	E.G.P.C.	IMODCO	250,000	2-24 in. + 1-20 in.
133	1974	Egypt	Alexandria	E.G.P.C.	SBM	120,000	2-20 in. + 1-16 in.
134	1974	Egypt	Alexandria	E.G.P.C.	SBM	120,000	2-20 in. + 1-16 in.
135	1974	Egypt	Alexandria	E.G.P.C.	SBM	120,000	2-20 in. + 1-16 in.
136	1974	Egypt	Alexandria	ARCO	SBM	150,000	3-16 in.
137	1974	Indonesia	Arjuna Field	ARCO	SBM	200,000	2-16 in.
138	1974	Indonesia	Bekapal Field	Total	SBM	100,000	2-8 in.
139	1974	Indonesia	Pulbarang	U.S. Army	DBV/Woodfield	100,000	2-16 in.
140	1974	Korea	Azawaya	NOC	DBV/Woodfield	30,000	1-8 in. + 1-10 in.
141	1974	Libya	Azawaya	NOC	SOPEC	94,000 SALM	1-10 in.
142	1974	Libya	Tembungo Field	Exxon	IMODCO	60,000	3-16 in. + 1-12 in.
143	1974	Malaysia	Salina Cruz	Petrex	IMODCO	60,000	2-16 in.
144	1974	Mexico	Turpan	Petrex	IMODCO	200,000	2-20 in.
145	1974	Mexico	Ogishima	Ogishima Oil	Mitsubishi	42,000 ELSBM	2-10 in.
146	1974	Japan	Auk Field	Shell Esso	Shell SBM IHC	500,000	2-24 in. + 1-12 in.
147	1974	United Kingdom	Juaymah	ARAMCO	McDermott	500,000	2-24 in. + 1-12 in.
148	1974	Saudi Arabia	Juaymah	ARAMCO	McDermott	500,000	2-24 in. + 1-12 in.
149	1974	Saudi Arabia	Juaymah	ARAMCO	McDermott	500,000	2-24 in.
150	1974	Saudi Arabia	Pulbar	Shell	IMODCO	300,000	3-16 in. + 1-10 in.
151	1974	Singapore	Tarragona	ENPITROL	SBM	325,000	2-24 in. + 1-12 in.
152	1974	Mexico	Chu Wei	CPC	SBM	250,000	2-20 in.
153	1974	Taiwan	Abu-Ali-Bu-Koosh	Total ABK	SBM	100,000	2-12 in.
154	1974	UAE	Angil Field	Hamilton Bros	SBM	210,000	2-24 in.
155	1974	United Kingdom	Durban	Shell BP Mobil	IMOTCO	100,000	2-16 in.
156	1974	South Africa	Zaire	Gulf	SBM	190,000 SALM	1-12 in.
157	1974	Zaire	Pula Field	Exxon	SBM	50,000	2-20 in. + 1-12 in.
158	1974	Malaysia	North Apoi Field	Texaco	SBM	250,000	2-20 in.
159	1975	Nigeria	North Apoi Field	Texaco	SBM	90,000 SPAR	—
160	1975	Nigeria	Bent Field	Shell Esso	Shell IHC	50,000	1-10 in.
161	1975	United Kingdom	Mormose Field	Amoco	SBM	50,000	1-10 in.
162	1975	United Kingdom					
163	1975	United Kingdom					

A 21 year review-offshore mooring terminals

No.	Year	Country	Port/Field	Owner	Contractor/Designer	Max. Vessel Size in DWT	Hose System Number-Size
164	1975	United Kingdom	Montrose Field	Amoco	SBM	50,000	1-10 in.
165	1975	United Kingdom	Anglesey	Shell	SBM	750,000 Flarepipe	2-24 in. + 1-16 in.
166	1975	United Kingdom	Scapa Flow	Occidental	McCopen	250,000 Fixed Tower	
167	1975	United Kingdom	Scapa Flow	Occidental	McCopen	250,000 Fixed Tower	
168	1975	United Kingdom	Berry Field	Mobil	CFEM	Art. Column	
169	1975	Indonesia	Arjuna Field	ARCO	SBM	30,000 SBS for LPG Flarepipe	
170	1975	Tunisia	Ashtart	Aquitaine	SBM	100,000	1-10 in.
171	1975	Saudi Arabia	Ju'aymah	ARAMCO	SOPEC	750,000 SALM	2-24 in. + 1-12 in.
172	1975	Saudi Arabia	Ju'aymah	ARAMCO	SOPEC	750,000 SALM	2-24 in. + 1-12 in.
173	1975	Mexico	Rosario	Pemex	IMODCO	60,000	1-20 in. + 2-16 in.
174	1975	Nigeria	Brass River	AGIP	IMODCO	250,000	2-20 in.
175	1975	Indonesia	Poering Field	Cities Service	SBM	50,000 SBS	2-8 in.
176	1975	Malaysia	Sena	Shell	IMODCO	210,000	2-20 in.
177	1975	USA	Santa Ynez	Exxon	IMODCO	50,000 SALM/Yoke	1-12 in. + 1-8 in. + 1-4 in. + 2-1 in.
178	1975	India	Bombay High	ONGC	SBM	100,000	1-16 in. + 1-8 in.
179	1975	India	Bombay High	ONGC	SBM	100,000	1-16 in.
180	1975	United Kingdom	Thistle Field	Burmah	DBV SBM	80,000 SALM	2-16 in.
181	1975	Spain	Algeciras	Cepsa	DBV Woodfield	500,000	2-20 in. + 1-12 in.
182	1975	Zaire	Zaire	Gulf	IMODCO	80,000	2-16 in.
183	1975	Taiwan	Chu-Wei	CPC	IMODCO	250,000 SALM	2-20 in.
184	1975	Trinidad	Galeota Pt.	Amoco	IMODCO	250,000	2-20 in.
185	1975	Brazil	Garupa	Petrobras	CB & I	Art. Column	
186	1975	Brazil	Garupa	Petrobras	CB & I	Art. Column	
187	1976	Libya	Azzawya	NOC	SBM	140,000 SALM	2-20 in.
188	1976	Libya	Azzawya	NOC	SBM	100,000 SALM	2-20 in.
189	1976	Japan	Yokkaichi	Shonwa Yokkaichi	Mitsubishi	300,000	2-24 in.
190	1976	Egypt	Agami	EGPA	SBM	100,000	2-16 in.
191	1976	Uruguay	Jose Ignacio	Amcar	SBM	150,000	2-24 in.
192	1976	Norway	Stafjord	Mobil	CFEM	Art. Column	
193	1976	Indonesia	Handi Field	Total	SBM	125,000	2-20 in.
194	1976	Cameroon	Kole Field	SHEAR/Pl	IMODCO	150,000	1-20 in.
195	1976	New Zealand	Taharua	N.Z. Steel Corp.	SBM	150,000	2-12 in.
196	1976	Qatar	Doha	Holcar	SBM	65,000	1-6 in.
197	1976	Spain	Castellon	Shell	SBM	50,000 SALS	1-4 in.
198	1977	UAE	Das Island	ADMA	IMODCO	300,000	2-24 in. + 1-6 in.
199	1977	UAE	Arzanah Field	Ameracs Hess	SBM	252,000 SBS	1-12 in.
200	1977	New Caledonia	Noumea	Le Nickel	SBM	100,000	1-20 in.
201	1977	India	Gulf of Kutch	IDC	SBM	300,000	2-24 in.
202	1977	Malaysia	Offshore	Exxon	SBM	150,000 SALS	1-12 in. + 1-6 in.

No.	Year	Country	Port/Field	Owner	Contractor/Designer	Blk. Vessel Size in DWT	Hose System Number-Size
203	1977	Korea	Orsan	KIPCO	IMODCO	250,000	2-24 in.
204	1977	Mexico	Salina Cruz	Pemex	IMODCO	60,000	2-16 in. + 1-20 in.
205	1977	Nigeria	North Apoi Field	Til Telexco	SBM	250,000	2-24 in. + 1-16 in.
206	1977	United Kingdom	Brent Field	Shell Espro	SBM	90,000	1-16 in.
207	1977	Kuwait	Mina Al-Ahmad	KOC	ETPM	500,000 Fixed Tower	2-24 in. + 1-16 in.
208	1977	Indonesia	Bulungan	Pertamina	SBM	150,000	2-20 in. + 1-16 in.
209	1977	Nigeria	Escravos	Gulf Oil	SBM	320,000	2-24 in.
210	1977	Brazil	Garupa	Petrobras	IMODCO	120,000	1-10 in.
211	1977	Ecuador	Esmeraldas	Gulf Telexco	IMODCO	200,000	2-20 in.
212	1977	Ghana	Bondu Field	Agripetco	SOPEC	60,000 SALM	1-10 in.
213	1978	United Kingdom	Buchan Field	BP	IMODCO	107,000	1-12 in.
214	1978	Indonesia	Ustang Field	Coloco	SBM	100,000 SBS	2-8 in.
215	1978	Brazil	Enchova 4	Petrobras	SBM	53,000	1-8 in.
216	1978	Philippines	Nido Field	Cities Service	SBM	90,000 SBS	2-8 in.
217	1978	Mexico	Rabon Grande	Pemex	IMODCO	150,000	2-20 in. + 1-16 in.
218	1978	USA	Louisiana	Loop	SOPEC	700,000 SALM	2-24 in.
219	1978	USA	Louisiana	Loop	SOPEC	700,000 SALM	2-24 in.
220	1978	USA	Louisiana	Loop	SOPEC	700,000 SALM	2-24 in.
221	1978	Spain	Badajona	Campsa	SOPEC	50,000 SALM	2-12 in.
222	1978	Tunisia	Ashanti	Seript	SBM	120,000 SBS	1-20 in. + 1-10 in.
223	1978	Mexico	Des Boccas	Pemex	IMODCO	250,000	2-24 in.
224	1978	Nigeria	Qua Iboe	Mobil	IMODCO	300,000	2-24 in.
225	1978	Egypt	El Alamein	Wepco	SBM	100,000	2-16 in.
226	1978	Italy	Nide Field	Agip	SBM	80,000 SALS	1-6 in.
227	1978	Argentina	Calaca Corboba	YPF	IMODCO	60,000	1-20 in. + 1-12 in.
228	1978	Argentina	Puerto Rosales	YPF	IMODCO	60,000	1-20 in. + 1-12 in.
229	1978	Libya	Zuelina	O. Dental	IMODCO	275,000	2-24 in.
230	1978	Malaysia	Bertulu	Shell	SBM	210,000	2-24 in.
231	1979	Angola	Quilugena	Petrangol	EMH	150,000 Fixed Tower	2-20 in.
232	1979	Duba	Fallen Field	Dupetco	IMODCO	120,000	2-24 in. + 1-12 in.
233	1979	Oman	Mina Al-Fahal	Shell-POO	SBM	350,000	1-20 in.
234	1979	Norway	Statfjord B	Mobil	SBM	150,000 Art. Tower	2-16 in. + 1-16 in.
235	1979	Cameroon	Limboh Point	Sonora	SBM	150,000	2-20 in.
236	1979	Brazil	Tedra and Telran	CEC-Petrobras	SBM	200,000	1-16 in. + 1-10 in.
237	1979	Gambia	Gambia	Shell	SBM	140,000	1-24 in.
238	1979	Cameroon	Kole	Shell Espro	Bluewater	250,000	2-16 in.
239	1979	United Kingdom	Fulmar	Shell Espro	Enron	70,000	1-4 in.
240	1979	Gabon	Mayumba GMB	SNEAP	SBM	70,000	2-12 in.
241	1979	Denmark	Gorm Field	Danor	IMODCO	250,000	2-20 in. + 1-16 in.
242	1979	Angola	Essungu	Telexco-Petrangol	SOPEC	300,000 SALM	2-24 in.
243	1979	Philippines	Bataan	Mobil			

A 21 year review-offshore mooring terminals

No.	Year	Country	Port/Facility	Owner	Contractor/Designer	Max. Vessel Size in DWT	Hose System Number-Size
244	1979	South Korea	Pusan	KOC	Mitsubishi	375,000	2-24 in.
245	1979	Singapore	Singapore	PSA	IMOCO	300,000	2-24 in.
246	1979	Ivory Coast	Abidjan	SIR	IMOCO	250,000	3-24 in.
247	1979	Qatar	Halul	QPPA(Shell)	SBM	500,000	2-20 in. + 1-0 in.
248	1980	USA	Worldwide	U.S. Navy	IMOCO	70,000 Lightweight	2-10 in.
249	1980	Mexico	Abasco	Pemex	IMOCO	n.a.	2-24 in. + 1-16 in.
250	1980	Mexico	Cayo Arcas I	Pemex	SBM	250,000	2-20 in. + 1-16 in.
251	1980	United Kingdom	Maureen	Phillips	EMH	85,000 Art. Concrete	1-18 in.
252	1980	Philippines	Cadiao	Amoco	SBM	Tower FPSO	No floating hose.
253	1980	Mexico	Rubon Grande II	Pemex	SBM	250,000	4-6 in. high pressure submarine hoses
254	1980	Brazil	Arenha	Torrax	SBM	4,000	2-20 in. + 1-16 in.
255	1980	Thailand	Gulf of Thailand	Union Oil	Bluewater	105,000 Yoke	1-16 in. + 2-12 in.
256	1980	Indonesia	Semarang	Pertamina	SBM	17,000	No floating hose.
257	1980	Angola	Cabinda	Gulf Oil	SBM	55,000	1-12 in. submarine
258	1980	Libya	Ras-Es-Sider	Oasis	SBM	300,000	1-4 in.
259	1980	UAE	Zirku Island	Adnoc	IMOCO	350,000	2-24 in.
260	1980	UAE	Critia	Isapco Natomas	IMOCO	350,000	2-20 in.
261	1980	Indonesia	Kuhli	AOC	IMOCO	140,000	n.a.
262	1980	Ras Al Khafji	Tazenia	Shell Tunesa	Mitsubishi	300,000	1-20 in. + 1-10 in.
263	1980	Tunisia	Takula	Gulf Oil	SBM	200,000 (SALS FPSO)	No floating hose.
264	1980	Angola	Ras Budran	Suez Oil Co.	SBM	300,000	6 x 3 in. high pressure jumper hoses
265	1980	Egypt	Humber River	Conoco	SBM	250,000	1-12 in.
266	1980	U.K.	Rosco Mare	SNEA (P)	EMH	280,000	1-24 in. + 1-20 in.
267	1981	Italy	Arjuna Field	Arco	SBM	35,000	1-24 in.
268	1981	Indonesia	Beryl A	Mobil	SBM	56,000	1-16 in.
269	1981	U.K.	Undisclosed	Brown & Root	SBM	80,000	1-6 in. Butane
270	1981	Undisclosed	Undisclosed	Brown & Root	SBM	350,000	1-20 in.
271	1981	Undisclosed	Kole	EMH	IMOCO	250,000	2-24 in.
272	1981	Cameroon	Beryl B	Mobil	IMOCO	80,000 (ALP)	2-24 in.
273	1981	U.K.	Khur Al Amaya	INOC	IMOCO	350,000	2-20 in. + 1-16 in.
274	1981	Iraq	Khur Al Amaya	INOC	IMOCO	350,000	
275	1981	Iraq	Pampo Field	Parobas	SBM	53,000	1-16 in.
276	1981	Brazil					

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A 21 year review-offshore mooring terminals

No.	Year	Country	Port/Field	Owner	Contractor/Designer	Max. Vessel Size in DWT	Mooring System
277	1991	Brazil	RJS 20A	Petrobras	SBM	53,000	1-16 in.
278	1991	Sharjah	Sharjah	Amoco	SBM	300,000	1-20 in.
279	1991	Malaysia	Trenggana	EPRI	SBM	250,000 (SALM)	1-24 in.
280	1991	Malaysia	Trenggana	EPRI	SBM	250,000 (SALM)	1-24 in.
291	1991	Egypt	Suez	Suez	SBM	500,000	2-24 in. + 175 m.
292	1991	Abu Dhabi	Abu-Al-Bu-Khoth	Total ABK	EMH	232,000	2-12 in.
293	1991	Japan	Mitsui	JNOC	SOPEC	300,000 (SALM)	
294	1991	Mexico	Cayo Arcas	Pemex	EMH	35,000 (Fixed Tower)	
295	1991	Italy Coast	—	Phillips	BLUEWATER	200,000 (SBS)	
296	1991	Brunei	—	Shell	MITSUBISHI	300,000	2-24 in.
297	1991	Brazil	Badajo	Petrobras	MOCCO	53,000	2-10 in.
298	1991	India	R 12 Field	ONGC	MOCCO	85,000	1-24 in.
299	1991	Panama	—	Petroterminal	EMH	150,000	1-20 in./1-20 in.
290	1991	Panama	—	Panama, S.A.	EMH	150,000	1-20 in./1-20 in.
291	1991	Malaysia	Pela	JGC	SOPEC	85,000	1-20 in./1-20 in.
292	1991	Indonesia	Korona	Iapora	MOCCO	230,000 (SBS)	2-36 in. 12 in. 1-6 in.
293	1991	Taiwan	Tai-Lin-Pu	CPC	SBM	250,000	2-24 in. + 1-16 in.
294	1991	Mexico	Don Bocas II	Pemex	SBM	250,000	2-24 in. + 1-16 in.
295	1991	Denmark	Frederichshavn	Danish Delfinco	SOPEC	35,000 (SALM)	2-10 in.
296	1991	Italy	Off Genova	C.A.P.	TECHNOMARE	270,000 (SALM)	2-24 in.
297	1991	Indonesia	Balikpapan	PERTAMINA	SBM	150,000	2-16 in.

Shaded area indicates bulge associated with subsea production

Material compiled and contributed by Single Buoy Mooring, Inc.

2000 WEST LOOP SOUTH • SUITE 900 • HOUSTON, TEXAS 77027 • TEL. (713) 877-2777 • TWX 910 • 881 • 5028 • TELEX 77-4588



August 23, 1982

President's Export Council
Ms. Wendy Hames, Executive Secretary
U.S. Department of Commerce
Washington, D.C. 20230

Dear Ms. Hames:

The purpose of this letter is to acquaint you with SOFEC, Inc. and ask your assistance to develop a viable financing policy to enable U.S. exporters to present financing terms which are similar to those offered by foreign competition. A copy of our company's background brochure is enclosed.

I note that this item was discussed at the Council Meeting on May 14, 1982. Unfortunately, delays in implementation of a viable policy to create international parity for governmental financing will result in an increased trade deficit.

From a company prospective, it is increasingly difficult, if not impossible, to export U.S. products that are not purchased for cash. A common example is as follows:

Country:	Brazil
Customer:	Petrobras
Value of Contract:	\$2,000,000.00
Technical Evaluation of SOFEC:	First
Price Evaluation of SOFEC's Offer:	First
Number of Competitors:	Five
Financing Evaluation of SOFEC's Offer:	Last
SOFEC's Financing:	LIBOR + 2 + 3/4 Fee
French (EMH) Financing:	8-1/4% interest for 10 years with 2 years grace period
Contract Awarded To:	EMH
Reason Contract Awarded to EMH:	Financing Terms

The lack of competitive U.S. financing caused the Panamanian Pipeline Crossing project, valued at \$12,000,000.00 to be awarded to a French company.

Our product is second to none, as demonstrated by being chosen to design, manufacture and supply the unloading terminals for the first deep water port in the United States, The Louisiana Offshore Oil Port (LOOP).

Ms. Wendy Hanes
August 23, 1982
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Our objective is to provide the best product available with competitive financing. We have the product, but ask for your assistance to enable us to "Sell American."

We recently met with representatives of Export Import Bank to discuss both our dilemma and financing for an upcoming project in India. Our meeting was positive, but we await their decision on our request for a Preliminary Commitment.

The economic impact of not providing competitive financing increases daily. There are solutions which will increase U.S. exports, productivity, private sector investment in U.S. property and tax revenue:

Solution 1

- Establish an association of banks similar to FCIA's credit insurance association.
- Provide the association with a tax incentive or governmental subsidy equal to the interest support necessary to match competing government financing such as France, United Kingdom and Japan. It appears, in practice, the Berne Union Agreement may not be operative.

Solution 2

- Reinstate the DISC deferral to 50%. This will help support the Company's interest subsidy between the rate charged by EX-IM and the competitive rate.

Solution 3

- Enact a tax credit similar to Economic Tax Recovery Act of 1981 legislation for increased research and development expenditures equal to one-half of the interest subsidy absorbed by the U.S. Company.

It appears, to me, obvious that Solution 1 is both the simplest and best approach.

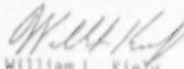
Alternatively, it may be possible to provide competitive financing without requiring new legislation. We are pleased to present three suggestions for your consideration:

- Increase Export Import Bank's loan amount to 85% of U.S. Content value instead of the existing 75%, with private sector support of 10%.
- Accelerate Export Import Bank's turnaround and response time.
- Structure Export Import Bank's interest rate and payment terms to be comparable with other government's financing.

Your attention to this matter will be most appreciated. If it would be beneficial, I will be pleased to meet with either the Council or yourself.

Yours very truly,

SOFEC, Inc.


William L. Kieley
President

SOFECLIST OF ARTICLES PUBLISHED

"Marginal Field (Early Production): Options for Offshore Loading", THE AMERICAN SOCIETY OF MECHANICAL ENGINEERS, 1982.

"Seven Years Experience with the First Deepwater SALM", JOURNAL OF PETROLEUM TECHNOLOGY, June 1982.

"The Tembungo SALM - Seven Years Operating Experience", 1982 Offshore South Asia Conference, Singapore.

"Five Years Experience with the First Deepwater SALM", OTC 3804, 1980.

"The LOOP Deepwater Port: Design and Construction of the Single Anchor Leg Mooring (SALM) Tanker Terminals", OTC 3562, 1979.

"Planning for Baltimore Canyon Oil Production", PETROMIN ASIA, May 1979.

"Offshore Loading May Be Economic Solution to Baltimore Canyon Oil", OIL & GAS SUPPLIERS DIGEST, November 1978.

"Float System Helps Develop Marginal Field", OCEAN RESOURCES ENGINEERING, October 1978.

"Offshore Oil Loading Facilities", ASCE Seminar on Marine Construction, 1977.

"The World's Largest Single Point Mooring Terminals: Design and Construction of the SALM System for 750,000 DWT Tankers", OTC 2826, 1977.

"SOFEC Constructs Largest SPM Terminals for Arabian Gulf", OCEAN INDUSTRY, April 1977.

"Single Point Mooring Technology", Seminar on Petroleum Transfer Systems on Puget Sound. University of Washington, September 1977.

"Design, Fabrication, Installation & Operation of a SALM Tanker Terminal in 300 feet of Water", OTC 2213, 1975.

"Mono-Mooring Terminals", Seminars on Harbors, Ports and Offshore Terminals, University of California, Berkeley, 1975.

SOFEC's headquarters are located at 2000 West Loop South, Suite 990, Houston, Texas 77027.

SOFEC, Inc. is currently involved in the engineering design, construction, model testing and supply of a SALM Terminal for Japan's Strategic Storage Project. This project is scheduled for completion in 1983. SOFEC has been contracted by Petronas of Malaysia for the design, engineering, model testing, construction and supply of a CALM terminal to be installed in July 1982, and we are designing and constructing a SALM terminal for products import in Denmark, scheduled for installation during 3rd quarter, 1982. We are also currently involved in design, engineering, and construction of a CBM terminal for Indonesia and 20 Supply Boat Moorings for Mexico. The CBM and Supply Boat Mooring projects will be completed in 1982.

Our most recently completed projects were the installation of the electrical and hydraulic control lines for the three (3) SALM Terminals which we designed and constructed for the Louisiana Offshore Oil Port (LOOP) and the design, engineering, construction, installation and testing of a utility mooring system for PEMEX in the Bay of Campeche. Both of these projects were completed in early 1981.

SOFEC does it again!

LOOP Project marks another first.

SOFEC, Inc. designed, fabricated and installed the dual product Single Header Lag Mooring (SALM) system, successfully in operation since 1974 in a water depth of 300 feet. They came the world's first of its kind. This is the world's first of its kind. This is the world's first of its kind. This is the world's first of its kind.

The latest "first" for SOFEC is the Louisiana Offshore Oil Port (LOOP) project currently under construction. The LOOP project is the United States' first deep-water import facility (110 ft. water depth) and is designed to handle tankers up to 700,000 DWT.

Put this experience to work for you. Contact SOFEC, Inc., 2000 West Loop South, Suite 990, Houston, Texas 77027 (713) 877-2777, TWX 910 881 5026 • TELEX: 774 588



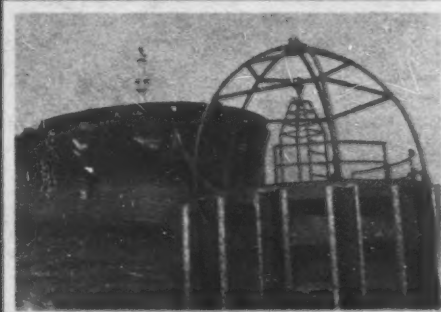
SALM riser shaft and buoy for 140,000 DWT permanently moored storage tanker. Location: Sabah, Malaysia. Depth: 300 feet.



Dual product SALM swivel designed to handle 210,000 barrels of crude oil per hour while simultaneously transferring bunker fuel oil. Patented design prohibits commingling of the two fluids.



Field production SALM permanently mooring 68,000 DWT tanker. Location: West Africa. Depth: 79 feet.



280,000 DWT Tanker loading at Aramco's Ju' Aymath SALM terminal. The terminal is designed for 750,000 DWT vessels. Location: Arabian Gulf. Depth: 125 feet.

SOFEC INC.



**SOFEC can solve
your offshore
loading problems —
standing on one leg.**

From T-2 tankers through ULCC's, SOFEC Single Anchor Leg Mooring (SALM) systems are loading or offloading — somewhere in the world — right now. And they've been doing it for years.

One SOFEC installation capable of loading 750,000 dwt tankers has already transferred over a billion barrels of crude oil since it first began operation.

With continued acceptance of the SALM transfer concept, new solutions to loading problems are being developed. SOFEC can talk to you about the shallow and deep systems that have proven their value through years of successful service at installations worldwide. And now SOFEC offers a new generation of simplified, less-expensive systems designed specifically for marginal field developments. And a new, rigid-yoke system where that application fits best.

SOFEC can meet your liquid transfer needs — anywhere — anytime. Let's talk. For descriptive literature, write, call or TWX today. We're ready to go to work for you!

SOFEC INC.

2000 West Loop So., Suite 890
Houston, Texas 77027
(713) 626-5400 TWX: 910 881 5026 TELEX: 774 588

2000 WEST LOOP SOUTH • SUITE 990 • HOUSTON, TEXAS 77027 • TEL. (713) 877-2777 • TWX-910 • 881 • 5026 • TELEX-77 4588



THE SOFEC CALM

SOFEC has designed and fabricated some of the largest and deepest water SPM's in the World. We have utilized our experience with these systems, coupled with our broad range of marine engineering design capabilities to develop our improved CALM (Catenary Anchor Leg Mooring).

The following points are of specific interest to CALM operators:

1. Stationary Hull

Our design is based upon a stationary hull which incorporates a rotating turntable. This is a basic concept common to more than 200 existing CALM's operating around the World. We believe this is distinctly superior to designs which utilize a rotating hull because the stationary design does not permit direct wave loads to be imposed upon the main bearing and ship contact loads with the terminal hull are not transferred into the main bearing.

2. Main Bearing

SOFEC's design utilizes a moderately sized inboard horizontal bearing. This design completely segregates the structural mooring load carrying bearing from the fluid system, i.e. the fluid swivel is a modular independent unit which is not supported on the main turntable bearing and is completely segregated from mooring loads.

3. Bearing Lubrication

SOFEC's design features a fully sealed main bearing and fully sealed bearings on the outboard rollers, both of which are designed to require lubrication on a bi-annual basis only.

4. Bearing Maintenance

The main bearing assembly and outboard rollers may be completely replaced in the field without requirement for drydocking the buoy.

5. Outboard Roller Track

SOFEC's outboard roller track is mounted on the deck of the buoy and can be replaced in part or in total in the field without drydocking the buoy.

6. Fluid Swivel

SOFEC's fluid swivel is our patented design which has been in use throughout the World on the World's largest SPM Terminals. This swivel is designed for long life and can also be fully maintained in the field. No drydocking of the buoy is required for swivel maintenance.

7. Adjustable Outboard Rollers

SOFEC's outboard rollers are adjustable to insure proper tracking at all times.

8. Turntable

Our turntable is a one-piece construction which insures continuity of movement between the arms of the turntable.

Our CALM Terminal is superior to any CALM system on the market today. We most certainly welcome the opportunity to present details.

SOFEC Inc. Introduces CALM Plus.

Everything a CALM should be...plus

Plus:

ONE PIECE, RIGID TURNABLE FOR
STEADY LONG TERM TOWING

Plus:

FLUID SHOVEL IS COMPLETELY
INSULATED FROM MOORING LOADS

Plus:

QUICK-CHANGE HANGER
CARPERS - ELIMINATES
CLIPPING CHAIN

Plus:

HEAVY DUTY TRACK -
ACCESSIBLE FOR FIELD
REPAIR

Plus:

EXTREMELY RUGGED OUTBOARD
ROLLERS - FULLY SEALED AND
PING FREE

Plus:

IMPROVED, SELF-ALIGNING
CHAIN STOPPER AND VERTICAL
PUL HANGER PIPE

Plus:

FULLY SEALED MAIN BEARING -
MAY BE REPLACED ON SITE
WITHOUT REMOVING TURBIDALE

SOFEC Inc. is proud to announce a new addition to our offshore marine technology: CALM PLUS.

CALM PLUS has everything you'd expect from a CALM: low maintenance design; fully sealed rotating parts that require little or no lubrication; and all components are designed to allow full field servicing and replacement if necessary.

But CALM PLUS also has features you might not expect: the seven innovations shown in the diagram above. Seven big pluses that make CALM PLUS the best available.

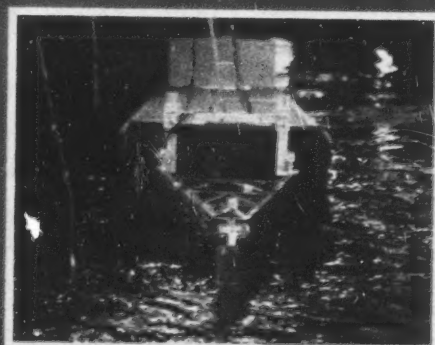
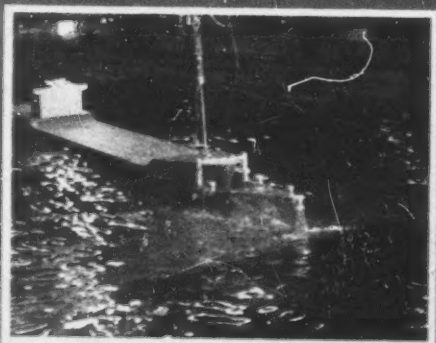
And of course, CALM PLUS is backed by the same SOFEC quality engineering and construction that have made our SALM systems the most successful in

the world.

Now, whether your offshore project calls for a CALM or a SALM, or other type of marine terminal including supply vessel moorings and conventional berths, you can call on SOFEC Inc., Specialists in marine technology and engineering.

SOFEC INC.
MARINE TERMINAL SPECIALISTS

SOFEC INC.



**MODEL TESTING RIGID YOKE
STORAGE/PRODUCTION TERMINALS**

SOFEC has been awarded 9 of the 12 SALM terminals which have been constructed since commercial licensing of the SALM by Exxon Research and Engineering Co. in 1972. We are the World's leading experts with respect to SALM tanker terminals.

SOFEC is currently completing the first three SALM terminals for the Louisiana Offshore Oil Port. SOFEC's contract on this project includes the electrical and hydraulic subsea control equipment, control bundles between the SALM's and the platform and all platform interface equipment.

SOFEC is committing a substantial research effort toward both the development of new offshore loading, storage and process systems and improved functional hardware. We have undertaken a continuing program of large scale (1:48) model tests to identify the optimum type of mooring system for wide varieties of environmental conditions and water depths.

SOFEC conducts feasibility studies for field development programs considering offshore loading, storage and processing. We also perform detailed SPM operational studies and we have developed procedures and hardware to improve operational efficiency.

SOFEC will develop, supervise and perform complete maintenance and operational services for your SPM terminal.

SOFEC is a privately owned Texas corporation. Majority ownership of SOFEC is held by Texas United Corporation, a substantial private company which had its beginning in 1928.

COVER PHOTOS:

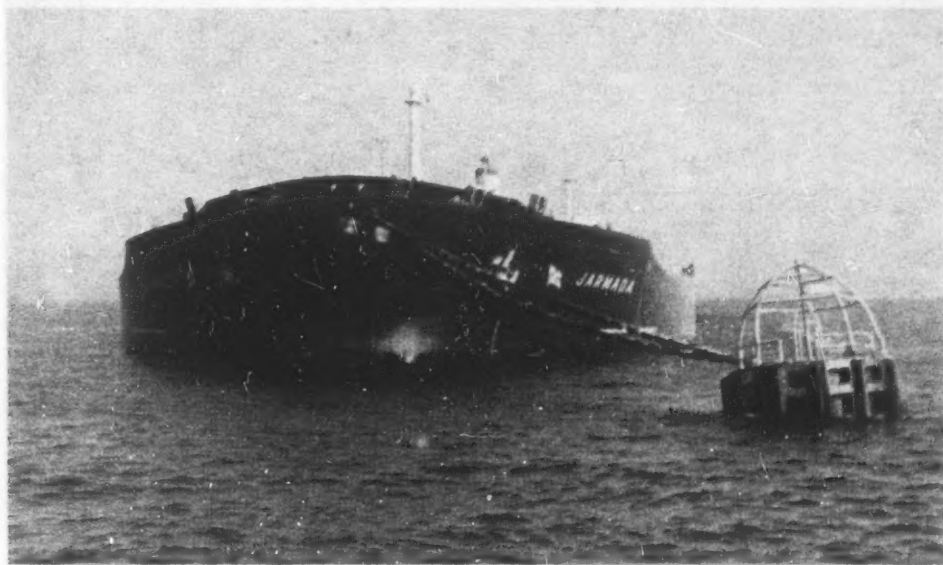
The cover photos are from an extensive model test series recently conducted by SOFEC on rigid yoke systems. More than 130 individual tests were conducted at a scale of 1:48 on various SPM concepts. Two tankers, 100,000 DWT and 200,000 DWT, were tested in wave heights from 6 meters to 24 meters, winds up to 70 knots and water depths from 60 meters to 120 meters.

SOPEC has designed and constructed the following SALM terminals:

OWNER	LOCATION	YEAR	WATER DEPTH	TANKER SIZE	HOSE SYSTEM	COMMENTS
EXXON	Tembungo	1974	300'	94 MDWT	1-10"	Storage Terminal
ARAMCO	Ju'aymah	1976	135'	750 MDWT	2-24" + 1-12"	Export Terminal
ARAMCO	Ju'aymah	1976	117'	750 MDWT	2-24" + 1-12"	Export Terminal
AGRI-PETCO	Ghana	1978	79'	64 MDWT	1-10"	Storage Terminal
CAMPSA	Badalona	1979	107'	50 MDWT	2-12"	Fuel Oil Import Terminal
LOOP	Louisiana	1980	110'	700 MDWT	2-24"	Import Terminal
LOOP	Louisiana	1980	112'	700 MDWT	2-24"	Import Terminal
LOOP	Louisiana	1980	114'	700 MDWT	2-24"	Import Terminal
BATAAN REF. CORP.	Philippines	1980	94'	300 MDWT	2-24"	Import Terminal

Reprints of technical papers describing details of some of the above completed projects are available. We will be pleased to forward them at your written request.

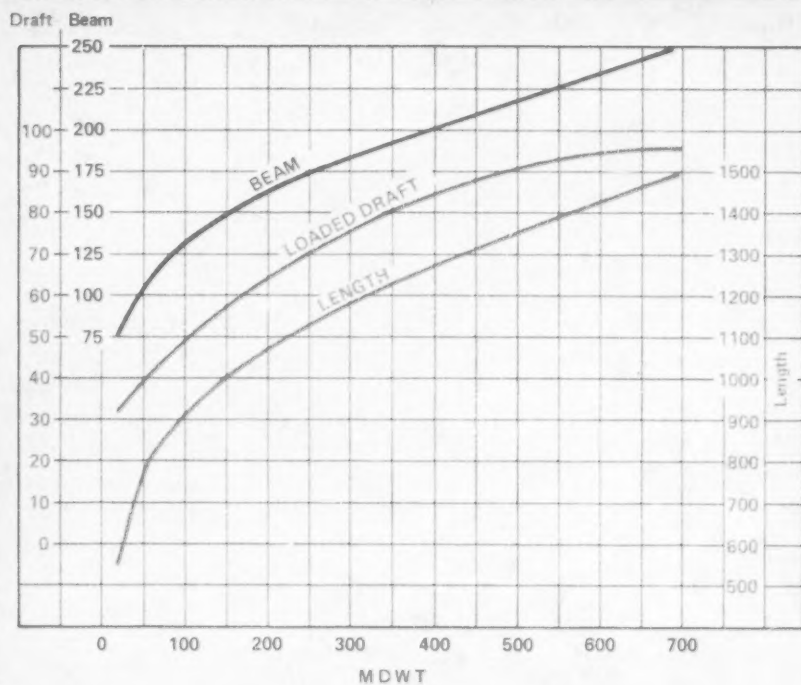
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Saudi Arabia — 384,000 DWT

SOFEC INC.

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AVERAGE TANKER DIMENSIONS AND PRINCIPAL CHARACTERISTICS

Tanker Class (DWT)	Total Displacement (Long Tons)	Length (ft)	Beam (ft)	Moulded Depth (ft)	Maximum Draft, Loaded (ft)	Freeboard, Loaded (ft)	Freeboard, Light* (ft)
500,000	590,000	1,350	215	125	90	35	87
326,000	390,000	1,135	175	105	81	24	71
250,000	307,000	1,110	170	93	69	24	70
200,000	250,000	1,060	160	84	63	21	63
150,000	191,000	980	144	74	56	18	55
100,000	127,000	900	130	63	48	15	47
50,000	64,000	750	104	52	39	13	42
20,000	25,000	550	74	41	32	9	29

*20% BALLAST

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FLOATING PRODUCTION SYSTEM DESIGN DATA

I. GENERAL INFORMATION

1. Geographical Location _____
2. Water Depth at Proposed Site _____
3. Purpose of Terminal:
 - a. Permanently Moored Storage Tanker _____
 - b. Permanently Moored Vessel for Process and Storage _____

II. ENVIRONMENTAL DATA*

<u>A. Wind, Waves, Current</u>	<u>Offloading</u>	<u>Survival</u>
Significant Wave Height	_____	_____
Dominate Wave Period	_____	_____
Current Velocity	_____	_____
Wind Velocity	_____	_____
Tidal Range	_____	_____

*NOTE: What is really required here is a complete environmental study which shows the statistical occurrence and directionality of wind, waves and currents in order to assess fatigue criteria.

B. Earthquake

If the anticipated site is in a zone of known or potential earthquake activity, information regarding maximum probable acceleration will be required.

Floating Production System Design Data
Page 2

III. TANKER DATA

1. Size of Permanently Moored Vessel (DWT) _____
2. Size of Shuttle (Offloading) Vessel (DWT) _____
3. Method of Offloading
 - a. Alongside Mooring _____
 - b. Tandem Mooring _____
 - c. Separate SPM for Export Tanker _____

IV. PRODUCT DATA

1. Storage Tanker Facility
 - a. Flow Rate Platform-Tanker _____ BBL/HR
 - b. Offloading Rate to Export (Shuttle) Tanker _____ BBL/HR
 - c. Operating Pressure Platform-Tanker _____
 - d. Operating Temperature _____
2. Process/Storage Vessel
 - a. Type of Production:
 - Oil _____
 - Gas _____
 - b. No. of Wells _____
 - c. Total Flow Rate per Well _____
 - d. Operating Pressure _____
 - e. Operating Temperature _____
 - f. GOR _____
 - g. Produced Salt Water (BBL/Day) _____
 - h. Product to be Exported (Methanol, LPG, etc.) _____

Floating Production System Design Data
Page 3

V. CONTROL SYSTEMS

a. Electrical Power Requirements

KVA _____

AMPS _____

b. Communication Channels Required (number) _____

c. No. of Valves to be Controlled per Well Head _____

VI. PRESSURE MAINTENANCE

1. Gas Injection Requirements:

a. MCF/Day to be Rejected _____

b. Operating Pressure _____

2. Water Injection Requirements:

a. BBL/Day to be Rejected _____

b. Operating Pressure _____

VII. WORKOVER REQUIREMENTS

Does Operator anticipate using pump-down tools
for well workover? _____

VIII. SOILS DATA

The following soils data are typically required for thorough SPM foundation design:

1. Effective submerged unit weight for all soil layers down to about 100 ft. (typ.)

2. For non-cohesive soil layers, the internal friction angle is required.

3. For cohesive soil layers:

a. Undrained Shear Strength

b. Stress-Strain data from Undrained Compression Tests

IX. MISCELLANEOUS DATA

1. Design Life of SPM Facility _____

2. Contract Award Date _____

3. Project Completion Date _____

UTILITY MOORING BUOYSA. "FLAT TOP" MOORING BUOY

The "Flat Top" mooring buoy, most commonly used in CBM's, MBM's and River Terminals, (see dwg. "berthing buoys") will be circular, all-welded steel construction 10' diameter x 5' high (typical; all buoys sized for particular project and mooring load capacity requirements). Hull will be $\frac{3}{8}$ in. plate and will be subdivided into two autonomous compartments via internal bulkheads of $\frac{5}{8}$ in. plate.

These buoys are equipped with navigation light and cage, external steel circumferential fender ring at top and bottom and quick release mooring hook designed to withstand maximum expected mooring loads. Heavy duty hand rails will be mounted along the full length of the buoy to facilitate boarding.

Each buoy is air tested to 5 psig. prior to coating. All girth welds will be 100% inspected via radiograph. Buoy will be filled with 2.5 lb. per cu. ft. polyurethane foam to prevent flooding should an accident occur.

Buoy will have sufficient buoyancy to prevent submergence under maximum design load.

B. Cylindrical Mooring Buoy

For supply vessel bow mooring applications we recommend a cylindrical buoy, typically with the following characteristics:

Diameter	7.5 ft.	
Length	15 ft.	See Dwg. "Supply Vessel Mooring"
Gross Buoyancy	42 KIPS	
Net Buoyancy	28 KIPS	

The hull is all welded steel construction of 0.375 in. mild steel with ASME flanged and dished torispherical heads. Hull contains one central bulkhead 0.5 in. x 7.5 ft. dia. which provides two autonomous internal compartments. External stiffening is via two circumferential ring stiffeners 0.75 in. x 3 in. high. The longitudinal seam and the ends are strengthened and protected by a full channel member 12 in. x 30 lb./ft. "PUSHNEE" type rubber fenders are mounted on this longitudinal axis (see photos).

All welding (girth and longitudinal) is inspected via radiograph 100% per AWS D1.1.

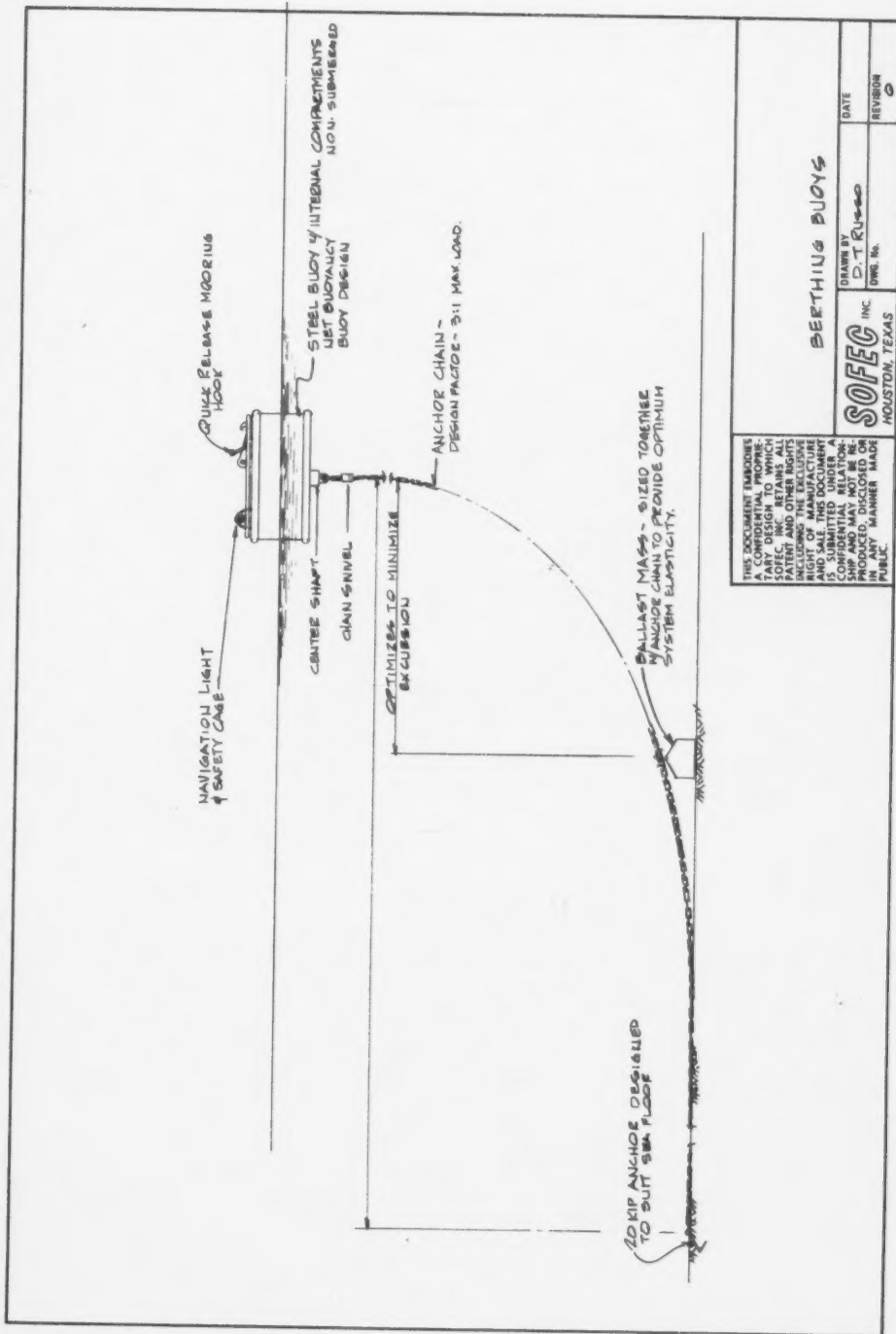
Additionally, the hull is hydrostatically tested internally to 10 psig.

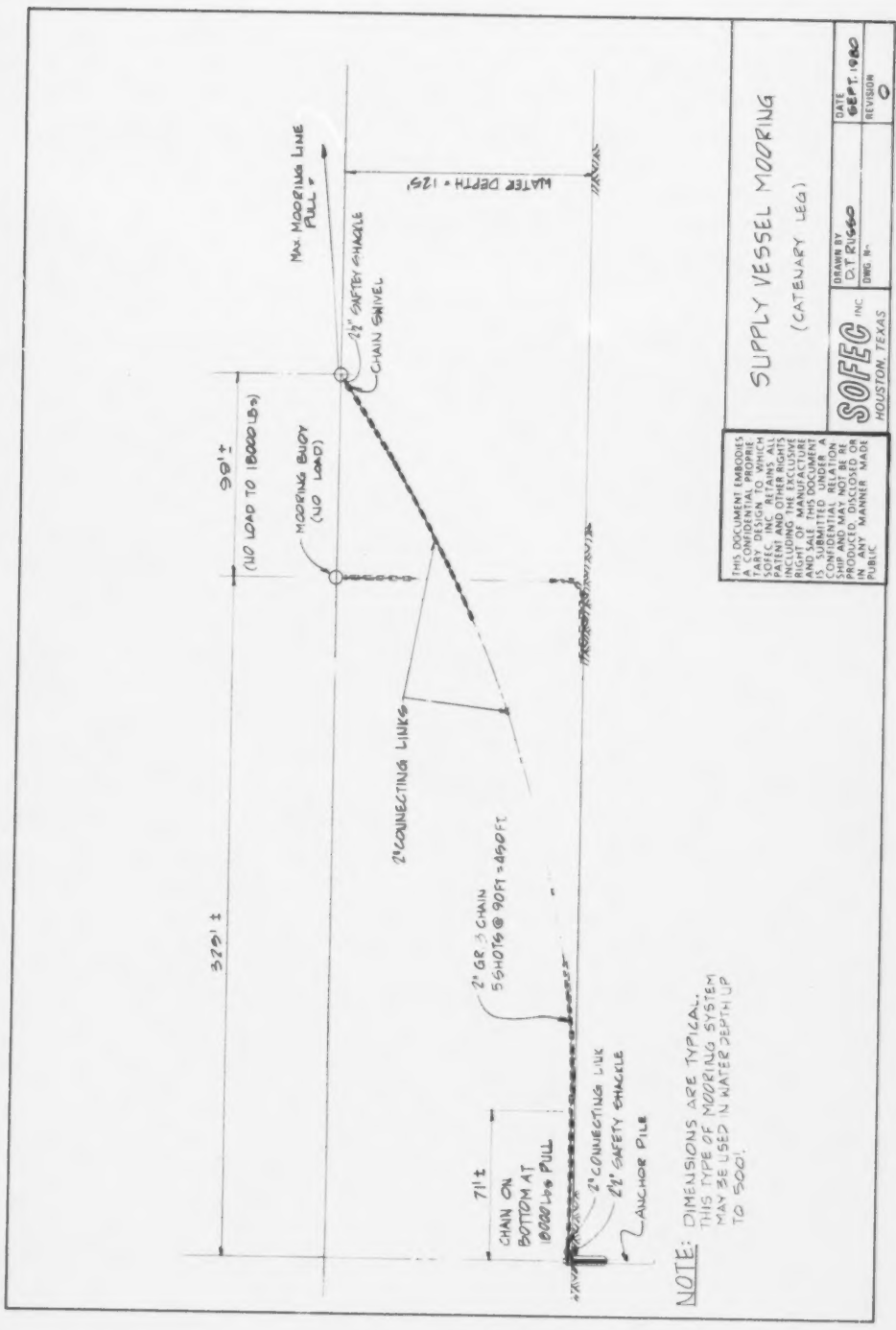
After testing and prior to final coating, the hull is filled with 2.5 lb./cu. ft. polyurethane foam.

A single quick-release type mooring hook designed to withstand the maximum expected mooring load will be mounted atop the buoy.

A navigation light and sealed battery pack will be provided. This unit will be protected by a heavy steel (1" bar typ.) cage.

Heavy duty hand rails will be mounted along the full length of the buoy to facilitate boarding.



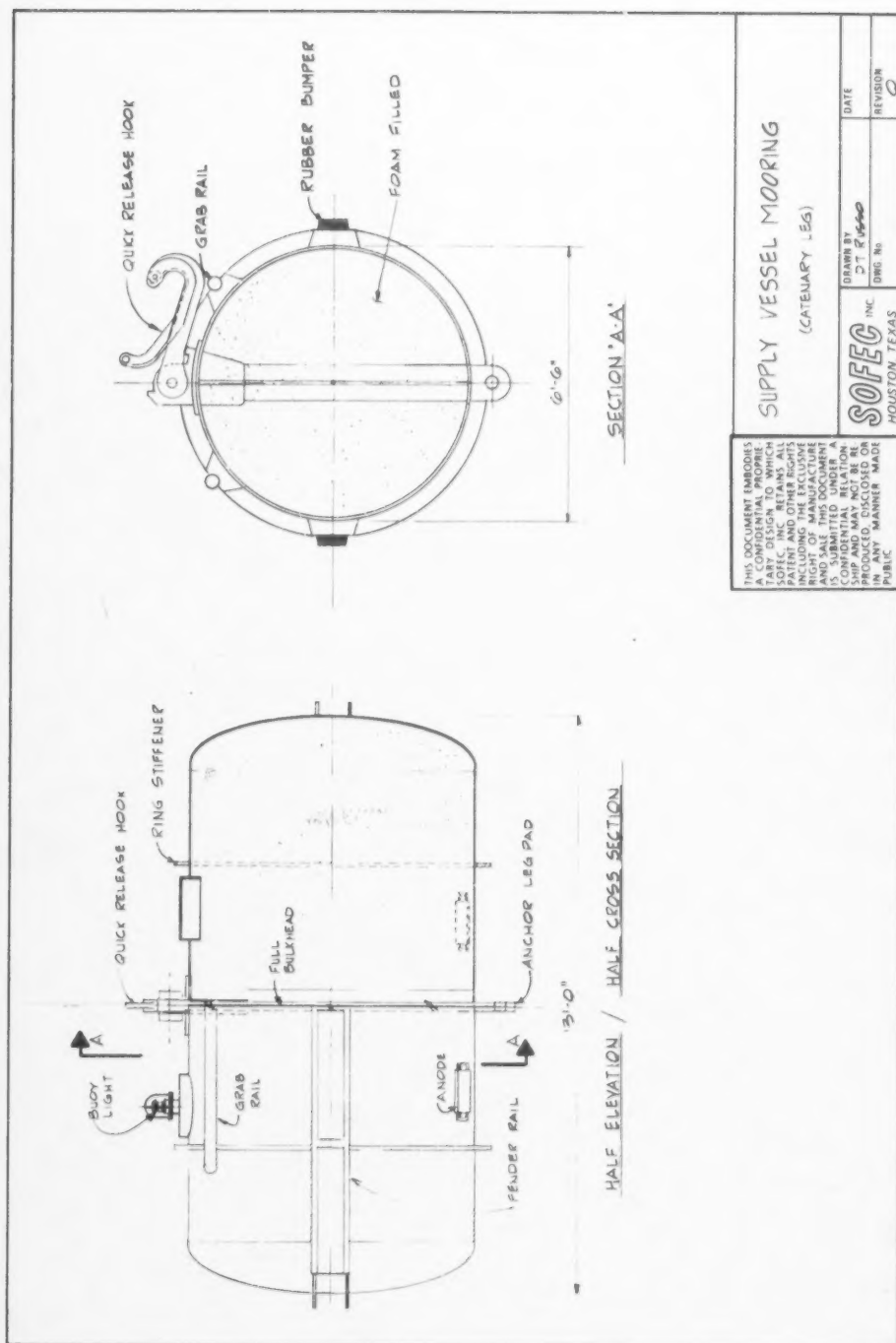


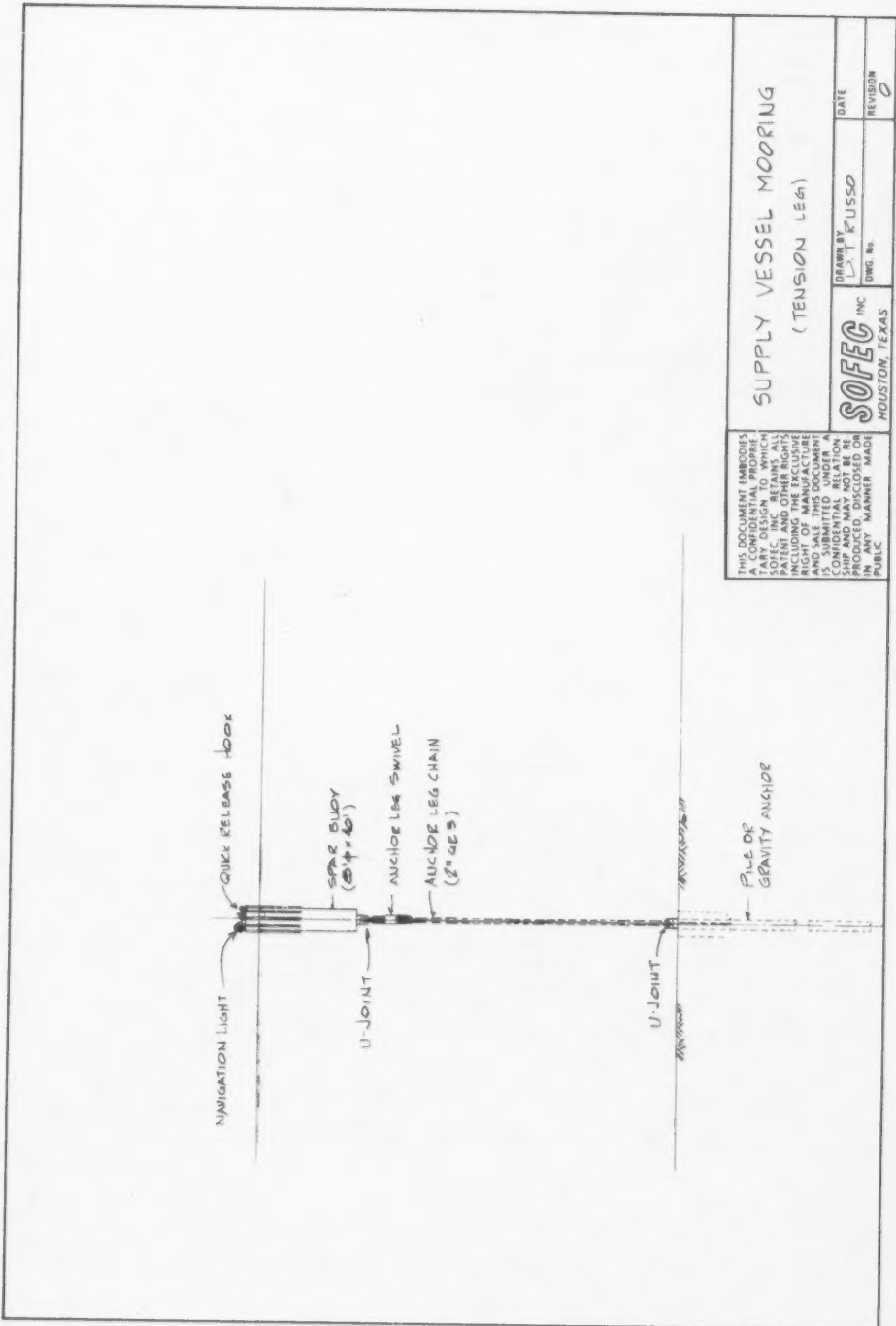
NOTE: DIMENSIONS ARE TYPICAL.
THIS TYPE OF MOORING SYSTEM
MAY BE USED IN WATER DEPTH UP
TO 500'.

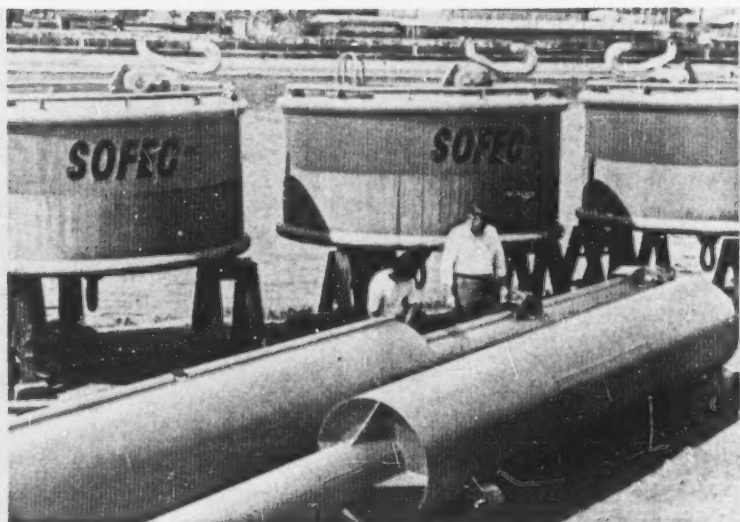
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SUPPLY VESSEL MOORING (CATENARY LEG)

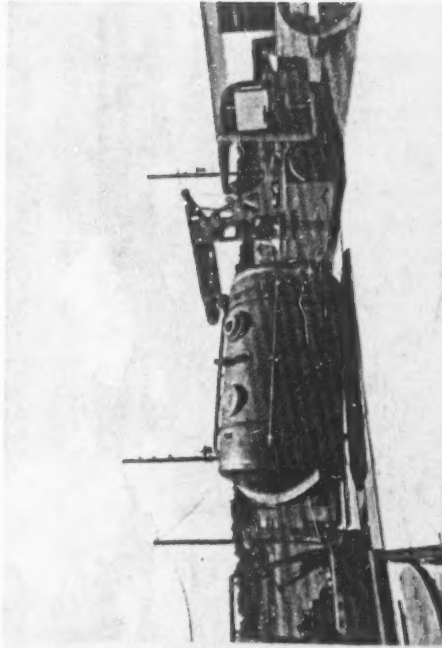
SOPEC INC HOUSTON, TEXAS	DRAWN BY D. E. RUGG DRG. NO.	DATE SEP. 1980 REVISION 0
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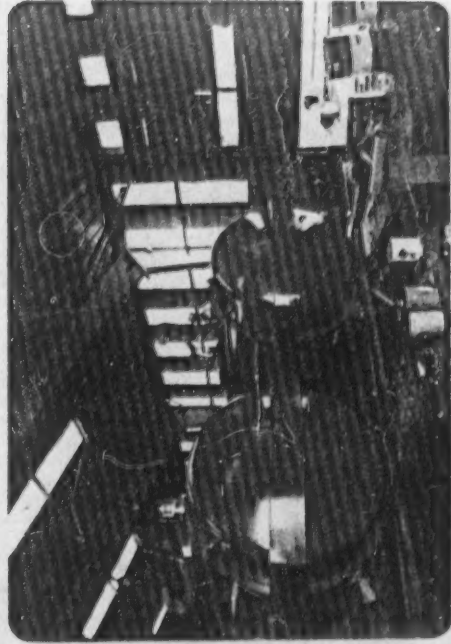




FOUR 10' diameter x 5' flat top buoys with 40 ton hooks for Multiple Buoy Berth with two tension leg marker buoys in foreground.



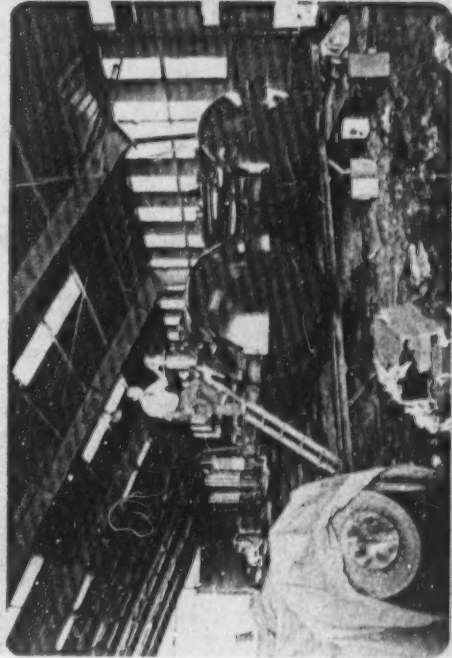
NOTE: Handrails



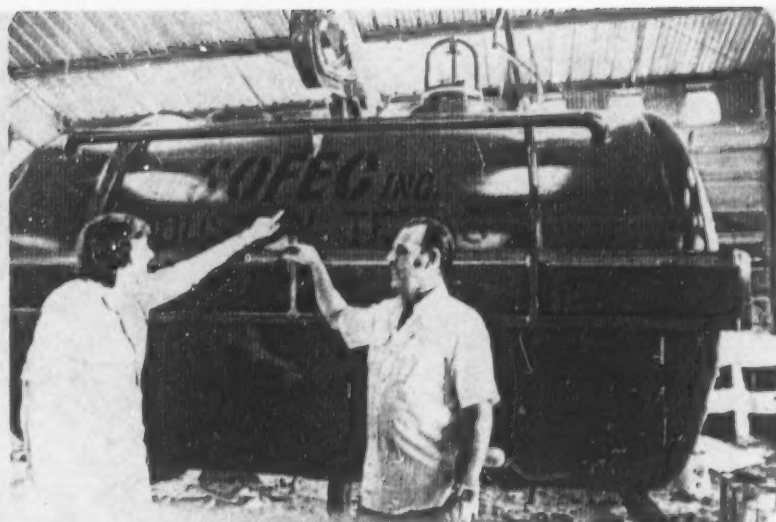
Complete with Mooring Hook



NOTE: "PUSHNEE" Rubber Fenders



Stainless Steel Navigation Lamp and Battery Pack



**NOTE: Stiffeners, Fenders, Handrails
and Protective Cage**



Pull Test - 40,000 lbs.



LIST OF SOFEC PUBLICATIONS

"The Tembungo SALM - Seven Years Operating Experience"
by R.H. Gruy, R.D. Swan, S. VanZeller
CSEA Paper Pc-82-108, 1982

"Seven Years Experience With the First Deepwater SALM"
By R.H. Gruy, W.L. Kiely, K.I. Pedersen, W.R. Wolfram, R.D. Swan
OTC Paper 3804, 1982

"Five Years Experience with the First Deepwater SALM"
by R.H. Gruy, W.L. Kiely, K.I. Pedersen, W.R. Wolfram, R.D. Swan
OTC Paper 3804, 1980

"The LOOP Deepwater Port: Design and Construction of
the Single Anchor Leg Mooring (SALM) Tanker Terminals"
by R.H. Gruy, W.L. Kiely, L.A. Maresh, K.I. Pedersen
OTC Paper 3562, 1979

"The World's Largest Single Point Mooring Terminals: Design
and Construction of the SALM System for 750,000 DWT Tankers"
by R.H. Gruy, W.L. Kiely
OTC Paper 2826, 1977

"Design, Fabrication, Installation and Operation of a Single
Anchor Leg Mooring (SALM) Tanker Terminal in 300 feet of Water"
by W.L. Kiely, R.H. Gruy, K.I. Pedersen
OTC Paper 2213, 1975

"Floating System Helps Develop Marginal Field"
by R.H. Gruy, W.L. Kiely
OCEAN RESOURCES ENGINEERING, October 1978

"SOFEC Constructs the Largest SPM Terminals in the Arabian Gulf"
by R.H. Gruy
OCEAN INDUSTRY, April 1977

"Offshore Loading May be Economic Solution to Baltimore Canyon Oil"
by R.H. Gruy
PETROMIN ASIA, May 1979

Please feel free to write for any of the above publications.



14 WALL STREET • NEW YORK, N.Y. 10005

(212) 233-0550 • TELEX: 129245 • CABLE: AMERTUTE

October 19, 1982

The Honorable John Heinz, Chairman
 International Finance and
 Monetary Policy Subcommittee
 Senate Banking, Housing and Urban
 Affairs Committee
 United States Senate
 Washington, D.C. 20510

Dear Senator Heinz:

The American Institute of Marine Underwriters (AIMU) has been deeply troubled by certain policies of the United States Export-Import Bank which operate to the detriment of the American ocean marine insurance market. In view of the fact that your committee is considering S.2600, we are once again raising these problems in the hope that your committee might find a way to address them in its current review of the Eximbank's role and functions. Current practices of the Eximbank allow client countries to impose local restrictive insurance measures on the procurement of insurance related to Eximbank financings. As a result, U.S. tax dollars are being used to sustain foreign discriminatory laws prohibiting U.S. marine underwriters from competing for international transport insurance premiums.

As you are well aware, American marine underwriters have been prohibited from competing for the marine insurance business arising from the international transportation of goods in an increasing number of countries. AIMU's current list shows 45 nations with restrictive laws and practices affecting the placement of ocean marine insurance. Unfortunately, this list continues to grow. Eximbank's financings generate millions of dollars of insurance premiums. A large part of those dollars purchase marine cargo insurance, business for which American insurers were never allowed to bid. AIMU is well aware of the current efforts of the United States Trade Representative to address problems associated with trade in services in the upcoming GATT negotiations and other international forums. Yet, we believe that the Eximbank





- 2 -

should be in a position to deal with this growing problem. We understand that the banks which function as counterparts of Eximbank in other countries have been quite successful in directing the placement of insurance with national insurance companies. Such banks in Canada, France and Japan have not agreed to comply with the restrictive laws and practices in client countries.

American insurers should have the right to compete freely on equal terms with foreign insurers for all insurances arising from financing with U.S. taxpayer dollars. Certainly, a system which would monitor the procurement of insurances could be developed. Eximbank client countries could be required to show that purchases are made on CIF terms or that at least three U.S. licensed companies which customarily write transport insurance had been given the opportunity to quote on all such insurance related to any loan.

The American Ocean Marine Insurance Market seeks only the opportunity to compete fairly and freely. When a foreign country enforces a law or practice which interferes with this right, an American governmental or quasi-governmental institution should not be in the position, due to the lack of authority, of condoning such practices to the detriment of a vital American industry.

AIMU supports efforts to maintain a strong and competitive Eximbank as an integral element in our export promotion program. Your committee now has the opportunity to examine the congressional mandate under which the bank operates and give Eximbank the leverage to confront this problem.

The American Institute of Marine Underwriters hereby respectfully requests that this letter be made part of the official record of the hearings held on September 14th and 16th by the Senate Banking Subcommittee on International Finance and Monetary Policy.

Thank you.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Thomas A. Fain", is written over the typed name.

Thomas A. Fain
President

TAF/ca

cc: Mr. William Brock
Mr. Malcolm Baldrige
Mr. George Schultz

 HARRIS

JOSEPH A. BOYD
CHAIRMAN

September 20, 1982

The Honorable John Heinz
U. S. Senate
Washington, D. C.

Dear Senator Heinz:

Thank you for your letter of July 14 enclosing a copy of S.2600, The Exim Bank Restructuring Act of 1982, and your correspondence with the White House. I too am deeply concerned about the declining export performance of U. S. industry and appreciate the opportunity to comment on your constructive proposals.

There are several factors causing the decline in U.S. exporters' share of world markets, including exchange rate impacts on our price competitiveness versus European and Japanese exporters, but I also believe Exim Bank's budgetary and policy problems are of primary importance, and I'm pleased they are addressed by S.2600.

From 1972 to 1980, Exim Bank financing was a critical determinant in a total of 385 export orders for \$251.4 million obtained by Harris, an average of 48 contracts per year with an average value of \$614,000 per contract. These export sales supported jobs in Connecticut, Florida, Illinois, New York, Ohio, Rhode Island, and Texas.

However, during the 12 months ended June 30, 1982 Exim Bank was involved in only 21 of our export orders for a total of \$15.2 million with an average value of \$487,000 per contract. \$5 million of this volume was short-term financing under FCIA insurance rather than Exim financing. A primary cause of this decline was a lack of competitive Exim financing programs for transactions in the \$1.5-2.5 million range, a typical price range for many U. S. capital goods exports and vital for Harris.

As clearly identified in your correspondence with the White House, proper funding of the Exim Bank would have prevented loss of Harris' \$5.5M Jordan sale to foreign competition in May of 1981. Enclosed is further information relating to that opportunity.

The Honorable John Heinz
 Page Two
 September 20, 1982

The legislation you have proposed, S.2600, is directed at very significant problems relative to the Exim Bank. Namely,

- Creation of a competitive export subsidy fund would provide for adequate Exim bank resources to meet predatory financing terms offered by foreign institutions.
- Removing loan authorization levels from the expenditure section of the federal budget. (It is inappropriate for Exim loans, which have proven to have an excellent repayment history, to be treated as expenditures.)

The business development cycle on major export contracts from proposal, competitive bidding, evaluation, award, to final shipment can extend over a two or three year period. Exim Bank has difficulty in allocating its preliminary commitments in support of major export contract bids in an orderly way when its loan authorization levels are subject to the year-to-year budget limits. A multi-year authorization is highly desirable.

I would like to draw another problem to your attention. An integral part of providing a competitive financial package for export sales is availability of insurance against unique political risks of large foreign turnkey systems contracts, such as was experienced when the revolutionary Iranian government unfairly drew down U.S. contractors' guarantee bonds.

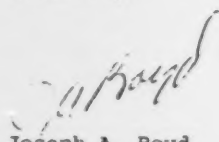
The Contractor's and Exporter Guarantee Program initiated in the 1960's by OPIC was designed to protect exporters from foreign political risks and was transferred to Exim in 1977. Unfortunately, Exim's coverage was limited to approximately 60 countries, and they could not obtain the very formal reciprocal agreements other countries required by previous OPIC practice even though these countries were already included in Exim's credit programs. Other nations such as Japan, France, and England have integrated this protection (with minor limitations) into their credit programs to provide exporters with a comprehensive export credit and political risk program.

The Honorable John Heinz
Page Three
September 20, 1982

As of June 1982, the Exim program was transferred back to OPIC. Political risk coverage is thus once again organizationally separated from credit programs and is available only for a limited number of countries, with premium rates 20-60% higher than comparable foreign programs.

In summary, we support S.2600 and urge additional considerations be given to competitive political risk insurance programs to support U.S. exporters' efforts to maintain our share of world markets.

Sincerely,



Joseph A. Boyd



CORPORATE HEADQUARTERS

TO:	FROM:	DATE:
M. G. Dowling	L. G. Smith	August 6, 198

SUBJECT: LOSS OF JORDAN TV CONTRACT IN MARCH 1981 DUE TO NON-COMPETITIVE FINANCING

Harris Broadcast Products Division (BPD) submitted a \$5.5 million contract bid to the Jordan TV Corporation (government owned) on 4/27/81 with a commercial bank financing offer. After evaluation, the Jordan TV Corporation advised the division that we were price competitive and they preferred our equipment, but that French and Japanese government financing proposals were better than ours. The customer advised us we had 2-4 weeks to provide a new financing proposal which would be competitive with the French and Japanese.

On 4/30/81, BPD telexed Exim for a direct loan preliminary commitment, requesting 7 years at rates of 8-3/4%. On May 15 Exim advised that a \$5.5 million deal was too low a unit value for the Direct Loan Program (although the published minimum is \$5 million). They suggested the Discount Loan Program as an alternative but simultaneously advised that because of budget limitations, there were no funds available under that program. (You may recall that Exim's budget was cut at that time and they had a moratorium on new direct loan commitments for several months.) The last alternative was a Supplier Credit Program with an Exim credit guarantee. As the commercial bank had already committed to accepting the credit risks on this government customer, this would unnecessarily add the cost of Exim's guarantee without improving either the interest rate or term of the loan.

BPD advised Jordan TV that no better terms were available, and the award was made to our French competitor on the basis of financing terms.

0187V


NATIONAL ASSOCIATION OF INSURANCE BROKERS

311 First Street N.W. • Suite 700 • Washington, D.C. 20001 • Telephone (202) 783-8880

September 29, 1982

The Honorable John Heinz
 Chairman
 Senate Subcommittee on International
 Finance and Monetary Policy
 5300 Dirksen Senate Office Building
 Washington, DC 20510

Dear Mr. Chairman:

The National Association of Insurance Brokers represents major commercial insurance brokers with offices throughout the United States and around the world. Our members sell and service the majority of the nation's business-related insurance coverages. It is the primary function and responsibility of a commercial insurance broker to develop insurance programs and provide related products and services to protect the assets of clients.

In response to your recent Export-Import Bank oversight hearings, we are writing to you to express NAIB's concern about restrictive insurance procurement regulations currently followed by the bank which allow many client countries to invoke restrictive business practices and force placement of insurance coverages in their local markets with national insurers. As a result, U.S. insurers and insurance brokers often have no opportunity to compete for this business though they are qualified to handle it and despite the fact that it was generated by U.S. tax dollars. The problem was clearly outlined in testimony presented on March 12, 1981, by R. Kendall Nottingham, senior vice president of American International Underwriters, which is enclosed here for your review.

While the NAIB agrees that the problem exists and warrants attention, we do not endorse the establishment of a certification process and acceptable bidders list of U.S. insurers as recommended by Mr. Nottingham.

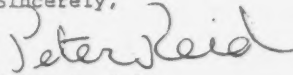
The NAIB, as the voice of brokers representing commercial buyers of insurance, is convinced that the international insurance market will function in the best interests of buyers if it provides for open competition without undue restrictions. NAIB also believes that existing Eximbank insurance regulations are anti-competitive. We recommend that the Export-Import Bank adopt a formal policy statement calling for an open bidding process so that the U.S. insurance industry can compete on equal footing with foreign insurance carriers.

Hon. John Heinz
September 29, 1982
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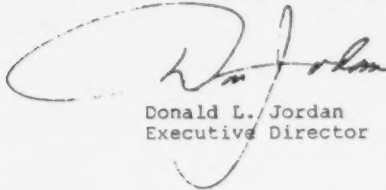
We further recommend that this policy be actively communicated to the international insurance community and to those seeking Eximbank financing. Clearly, the key to insuring open competition is a bidding process in which bids are drawn fairly and are not biased toward non-U.S. markets. To that end, the Eximbank may consider the use of an advisory panel to review bidding specifications and verify that they are transnational.

We respectfully request that this letter be entered in the hearing record. If the NAIB can be of assistance to you as you or your staff review this issue, please contact us.

Sincerely,



Peter E. Reid
Chairman,
International Affairs Subcommittee



Donald L. Jordan
Executive Director

cc: All Subcommittee Members

INTERNATIONAL BROTHERHOOD OF TEAMSTERS
CHAUFFEURS • WAREHOUSEMEN & HELPERS
OF AMERICA

15 LOUISIANA AVENUE, N.W. • WASHINGTON, D.C. 20001

OFFICE OF
• ROY L. WILLIAMS •
GENERAL PRESIDENT



October 18, 1982

The Honorable John H. Heinz, III.
Chairman, Subcommittee on International
Finance and Monetary Policy
United States Senate
Washington, D.C. 20510

Dear Senator Heinz:

On behalf of the over two million members of the International Brotherhood of Teamsters, I am in strong support of your efforts to increase competition for companies of the United States, in international markets. Your legislation, S. 2600, provides a sound solution to the present lack of adequate and competitive export financing.

While I am sincerely interested in the United States export policies, as the representative of the largest trade union in this country, I am more concerned with the present appalling number of Americans out of work. As I am sure you are aware, the unemployment rate is now at its highest level in over forty years.

Increased export trade will mean American jobs. If the Export-Import system is discarded, the workforce of this country will surely suffer, and it is my belief that the American workforce has suffered long enough.

As I have stated in the past, strong, decisive and immediate Congressional action is needed to correct the current economic ills of this country, without substantially increasing the National debt. Your legislation will do just that.

Senator, your legislation can help solve the problems of foreign trade as well as to undertake the tremendous task of putting this country's over 10 million people back to work. I applaud you for your initiative and foresight, and pledge our support for the enactment of S. 2600.

Sincerely,

Roy L. Williams

Roy L. Williams
General President

SPERRY CORPORATION
1800 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 1004

J. PAUL LYET
Former Chairman



August 12, 1982

The Honorable John Heinz
United States Senate
Washington, D.C. 20510

Dear Senator Heinz:

Thank you very much for the dedicated effort you are making to strengthen the Export-Import Bank.

Senate Bill 2600, the Export-Import Bank Restructuring Act of 1982, deserves support which I hope it gets with eventual enactment.

As I am sure you know, the President's Export Council, of which I am Chairman, has strongly recommended to the President that the Bank be strengthened and supported. Like you, we continue to be puzzled by the apparent lack of understanding at top levels of the Administration about how the expenditures and collections of the Bank properly relate to the budget.

Meanwhile, as you know, a number of states are moving in the direction of setting up State Export Banks. Some innovative ideas have been generated by the New York initiative, including the possibility of floating international trade bonds which would be exempt from Federal taxation and which would make possible a competitive blended rate by the quasi-public Export Bank.

The concept of State Export Banks ties in with the "federalization" approach of the Administration, but Administration support for the specifics making implementation possible (such as exempting from taxation the interest on international trade bonds) will still be required. If you are looking for additional ideas, here is another: authorize the Export-Import Bank to make loans or guarantees to appropriately constituted

State Export Banks which could, in turn, leverage those funds in the process of financing state exports. Thus, the limited amount of funds available to the Export-Import Bank could be substantially multiplied in attaining the overall objective of increasing funds available for export financing. Since this would, in effect, be providing "seed money" for local initiative, it might "fly" with the Administration.

Sincerely,

J. P. Lyet

Westinghouse
Electric Corporation

Robert E. Kirby
Chairman

1982 OCT 30 PM 7:34

Westinghouse Building
Gateway Center
Pittsburgh Pennsylvania 15222

October 26, 1982

The Honorable John Heinz
United States Senate
443 Russell Senate Office Building
Washington, D. C. 20510

Dear Senator Heinz:

Your continuing support for a strong, adequately funded Export-Import Bank is increasingly important to the U. S. economy and to the Commonwealth of Pennsylvania.

Nationwide unemployment has reached a forty-two year high. The domestic market for large capital goods is in the doldrums. Federal, state and local governments are facing unprecedented budgetary problems. It is thus imperative that the Congress and the Administration give the Eximbank the backing it needs to facilitate export sales and to prevent further unemployment resulting from subsidized foreign financing.

During the period 1977-81, Eximbank loans made possible \$71 billion of exports and more than two million man-years of employment. Pennsylvania ranked sixth among the states in this total employment profile.

Westinghouse has lost three important export orders to foreign competition offering highly subsidized interest rates and mixed credits. With an unemployment rate above 11 percent, Pennsylvania clearly cannot afford further such losses.

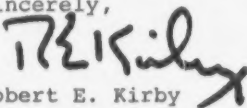
Our Company has a fine record of successfully competing in export markets on the basis of price, quality, technology and delivery. Such international competition we accept as fair. But the subsidized financing that the governments give our foreign competitors is unfair. When an American exporter loses an order because of unfair international competition, the real employment levels in the U. S. economy are threatened by the artificial employment overseas created as a result of predatory financing practices of foreign governments.

The Honorable John Heinz
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I believe that a strong Export-Import Bank can be salutary in providing a countervailing force to neutralize the disruptive effects of these massive trade subsidies. Your War Chest Bill provides an appropriate response to this serious international challenge.

Next year the new Congress undoubtedly will be pressured again to enact protectionist legislation. Enactment of such bills would have a very negative impact on U. S. trade relations. However, early passage of the War Chest Bill, I believe, will help to restore competition to the international marketplace and thereby increase our nation's employment levels without the concomitant injury to our trading partners.

Sincerely,

A handwritten signature in dark ink, appearing to read "RE Kirby", with a stylized flourish at the end.

Robert E. Kirby

GENERAL ELECTRIC
 GENERAL ELECTRIC COMPANY
 570 LEXINGTON AVE., NEW YORK, N. Y. 10022

WILLIAM J. DURKA
 MANAGER AND COUNSEL
 INTERNATIONAL LEGISLATIVE
 AND TRADE POLICY OPERATION

December 30, 1982

The Honorable John Heinz
 Chairman, Subcommittee on International
 Finance and Monetary Policy
 United States Senate
 Washington, D.C. 20510

Dear Mr. Chairman:

As requested during the Subcommittee's hearings on the Export-Import Bank of the United States, my overall comments on John H. Boyd's article (as printed in the Congressional Record for May 26, 1982) are as follows:

- Mr. Boyd develops a questionable theory for determining the costs of the Bank but he fails to consider the Bank's benefits.
- The contest is not - as Mr. Boyd thinks - between Eximbank and commercial banks. The contest is between Eximbank and no bank at all. The Bank operates as a bank of last resort. Eximbank enables U.S. exporters to compete against foreign suppliers whose governments are providing concessionary financing. Therefore, U.S. exports obtained with Eximbank assistance are "additional". Mr. Boyd does not evaluate the benefits to the U.S. economy of these additional exports.
- The obvious implication of the article is that the country would be better off if we lost the export business now obtained because of Eximbank financing. The theoretical argument that Eximbank facilitated exports represent economic activities that would have occurred elsewhere in the economy if those activities hadn't taken the form of exports ignores the imperfect nature of U.S. and world markets. As confirmed by Treasury Department studies, Eximbank facilitated exports are incremental to the U.S. economy, not merely substitutional. They create jobs that would not otherwise exist.
- The additional tax revenues, reduced unemployment costs, and other benefits of the increased economic activity facilitated by the Bank offset whatever might be deemed to be the costs of the Bank. In this connection, there is really nothing to refute in Mr. Boyd's article because he does not attempt to make any overall cost-benefit evaluation

- Increasingly, the market sectors where Eximbank is required to enable U.S. exporters to be competitive are the "big-ticket" high-technology big-investment areas where the initial orders are often the essential prerequisites to "follow-on" business. If an exporter doesn't get the initial order, his chances for the follow-on business are greatly reduced. Hence, the economic value of the first order is often far greater than would appear from just the order itself. For the U.S. to abandon these critical market sectors to foreign suppliers would be indefensible.

As you, Mr. Chairman, have stated, "a non-competitive financing offer most often means loss of the sale and often permanent loss of the market." This is particularly true for sales of "big-ticket" items such as aircraft, power generation equipment and locomotives where a single lost sale also means the loss of millions of dollars of follow-on orders for spare parts and equipment.

Our trading partners well understand the importance of capturing these markets, particularly in today's recessionary climate - which is the very reason other governments make such extensive use of export credit subsidies. Japan subsidizes over 40% of its exports, France over 30% and the U.K. 37%, according to the Economic Report of the President.

As I previously stated, the only way to put the financing of exports on a sound economic basis is to enable Eximbank to compete so effectively that it convinces our foreign competitors that they have nothing to gain by unsound financing practices.

William J. Sucka

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